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POLICY RESEARCH WORKING PAPER

Government Employment and Pay

A Global and Regional Perspective

*Salvatore Schiavo-Campo**Giulio de Tommaso**Amitabha Mukherjee*

Background paper for *World Development Report 1997*

An honest and competent civil service is essential for public sector efficiency and economic development. As a complex institutional challenge, civil service reform is worth doing only if it is done well. But even when circumstances are not ripe for genuine reform, governments and development institutions should keep a "watching brief" on civil service issues — recalling that the slide of many of today's failed states began, in part, with the degradation of their civil service.

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Summary findings

Schiavo-Campo, de Tommaso, and Mukherjee try to replace myths about government pay and employment with reliable facts from a survey of international, national, and primary sources for about 100 countries in the early 1990s. The study also outlines the general nature of civil service problems in the different regions. Nevertheless, while the facts are useful to “flag” possible problems and initiate a dialogue, recommendations for reform must be based on country-specific analysis.

Globally, government employment is negatively associated with wages, and positively with the fiscal deficit (although the availability of financing is more important) and with per capita income (confirming “Wagner’s Law”). But the global results stem almost entirely from strong results for Africa and Latin America.

Civil service reform has suffered in the past from an overemphasis on retrenchment for fiscal reasons. Its true objective, for each country, is to achieve a civil service of the size and skill-mix, incentives, professional ethos, and accountability needed to provide public goods, help formulate and enforce the rules, and intervene to remedy

market failures — as these government roles happen to be defined in the country in question.

Civil service reform can begin with various diagnostic and fact-finding activities. The key measures concern rightsizing, incentives, and accountability. These are all relative notions: the right size of the workforce depends on the roles assigned to government; wage adequacy depends on private compensation levels; and strengthening of accountability must define accountability for what and to whom. When retrenchment is warranted, it must be carried out with great care to avoid skill reduction, demoralization, and lower-quality service. Adequate compensation is a must, and wage compression is to be avoided. But performance bonuses, popular in some advanced countries, have been only marginally effective in improving performance in developing countries, even in the private sector. And they can be dangerous in countries with ethnic, clan, or religious conflicts. Finally, improvements in accountability will most often require greater external openness and systematic feedback from service users.

This paper — a joint product of the Office of the Chief Economist and Senior Vice President, Development Economics, and Europe and Central Asia, and Middle East and North Africa Technical Department, Public Sector Management and Information Technology Team — was produced as a background paper for *World Development Report 1997* on the role of the state in a changing world. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Alison Panton, room H8-005, telephone 202-458-5433, fax 202-477-3387, Internet address apanton@worldbank.org. May 1997. (68 pages)

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GOVERNMENT EMPLOYMENT AND PAY IN GLOBAL PERSPECTIVE

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PREFACE AND ACKNOWLEDGMENTS

This is one of two papers prepared partly as background to the World Bank's 1997 World Development Report (*The State in a Changing World*), under the aegis of the Public Sector Management Team for Europe, Central Asia, Middle East and North Africa and with partial support from the WDR.

The companion paper contains the detailed international statistical comparisons. This paper presents the results of the survey, and also reviews the key civil service policy reform measures, implementation issues, and lessons of experience. References in the text to the "companion study" are to the paper "*An International Statistical Survey of Government Employment and Wages*", also in this series.

The largest previous such surveys had covered around 50 countries. This study has been able to examine comparable data on central and local government employment and wages for almost 100 countries in the early 1990s, both advanced and less developed countries, with samples in each region sufficiently large to be representative of the region as a whole. More importantly, most of the data were individually checked and verified with primary sources, including country economists of the World Bank and the International Monetary Fund, and World Bank Resident Missions in some 30 countries. As a result, we believe this survey to be not only the largest to date but also comparatively the most reliable--albeit with the caveats concerning the severe methodological problems of any international comparison of government employment and, especially, wages.

Our thanks, therefore, are due in the first place to the large number of Bank and Fund colleagues who generously gave of their time and effort to help us. Although it is not possible to name them all, I wish to single out Giuseppe Iarossi, Marcelo Bisogno, Ide Gnandou, Abdoulaye Seck, Lemma Merid, Fabien Nsengiyumva, Garry Reid, Jorge Shepherd, Vera Wilhelm and Javier Burgueño. I also thank the many who commented on various drafts or parts of the study: Ajay Chhibber, Jayati Datta-Mitra, Migara Da Silva, Peter Dean, Poonam Gupta, Robert Lacey, Anne-Marie Leroy, Nicholas Manning, Costas Michalopoulos, John Nellis, Barbara Nunberg, Dominique Pannier, Rogerio Pinto, Sanjay Pradhan, Rita Parrilli, Anil Sood, David Steedman, Mike Stevens, and David Wood of the World Bank; Ian Lienert and Jitendra Modi of the IMF; and Professors Hazel McFerson (George Mason University) and Riordan Roett (SAIS). Their feedback saved us from several mistakes and substantially enriched the study. Alison Panton and Lynette Alemar competently and cheerfully processed the several drafts.

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EXECUTIVE SUMMARY

Why does a sound civil service matter?

An efficient, motivated and effective civil service is very important in five areas:

- Governance-- a good civil service is necessary but not sufficient for good governance; a very bad civil service is sufficient but not necessary for bad governance. Thus, a dilapidated civil service has been a key factor in Africa's economic decline. Conversely, a strong civil service is one of several reasons why in much of East Asia, authoritarianism has co-existed with excellent economic performance;
- Production and distribution of public goods and services-- it makes no sense for the analysis of public production to exclude consideration of the size and quality of the public workforce and of improvements in the institutional rules which guide its behavior;
- Economic policy-- "enabling reforms" (e.g., removing price controls) do not critically depend upon requisite administrative capacity, "affirmative reforms" (e.g., enterprise restructuring) do;
- Fiscal policy implementation-- public expenditure management and efficient tax administration (a subset of the economic policy issue) are impossible without a competent and motivated civil service;
- Fiscal sustainability-- the fiscal burden of the wage bill is considerable in countries with a large government, and efficient downsizing of government calls for intelligent ways to reduce numbers of public employees. However, it matters not only how much the wage bill is reduced, but how it is reduced;

Beyond mere cost containment, therefore, the broad aim of civil service reform is the creation of a government workforce of the size and with the skills, incentives, ethos, and accountability needed to provide quality public services and carry out the functions assigned to the state in the specific country.

Government employment and pay in global perspective

Methodological problems render an important initial caveat imperative. Cross-country comparisons are always hazardous, but particularly so in the area of "civil service" employment and wages. These problems preclude the inclusion of all countries. Nevertheless, we were able to collect and verify government employment and wage data for 80-100 countries in the early 1990s: the largest such survey to-date. These data are shown, by country, in the companion paper, and the regional averages are shown in the text tables. The text tables and the regional averages are based only on countries for which reliable data could be found or estimated concerning: central government administration employment; local government administration employment; teachers; and health personnel. Most of the data were either collected, or verified with the help of country economists at the Bank and IMF, and of Bank

Resident Missions. It is, however, essential to note that all such data can serve only as pointers for further analysis, and country-specific knowledge is required for meaningful interpretation.

The key findings on *employment* are as follows:

- Worldwide, total government civilian employment currently averages (on an unweighted basis) about 4.7% of population. It is relatively largest in the developed market economies of the OECD (7.7% of population), second largest in Eastern Europe and the former Soviet Union (Europe and Central Asia — ECA), at 6.9% of population; and relatively smallest in Africa and Asia (respectively, 2.0% and 2.6% of population). Latin America and the Caribbean (LAC), and the Middle East and North Africa (MENA) are in between, with government employment accounting for about 3.0% and 3.9% of population respectively;
- Relative to total employment, the inter-regional differences are much less marked, because of the significantly lower labor participation rate and higher unemployment in developing regions. The regional rankings change somewhat. Worldwide, civilian government employment accounts on average for about 11% of total employment, with MENA countries highest at 17.5 %, OECD at 17.2%, ECA and LAC at 16.0% and 8.9%, respectively, and Africa and Asia at the low end with 6.7% and 6.3%, respectively;
- The picture changes if teachers and health personnel are excluded. The central administration in ECA is comparatively not large, and is small in the former Soviet republics. Among developing regions, central administration is largest in the Middle East and North Africa. Overall, government administration employment in developing regions, at 1.8% of population, is less than half the relative size in OECD countries. Education and health personnel, too, average in developing regions (excluding ECA) less than half the level of OECD countries;
- During the 1980s, local government administration has grown to almost equal employment in central administration. Clearly, civil service reform efforts are badly incomplete if they do not include consideration of local government and of teaching and health personnel;
- Predictably, inter-country and inter-regional variance is smallest for overall government employment, than for either central or local administration or for education and health personnel. The inter-country variability of government employment is the only category for which there is no difference between the industrial and developing country groups, suggesting that the *range* of choices on the role of government does not diminish with economic growth. If there is a tendency toward “convergence” in public administration, it is certainly not borne out by the facts of government employment;
- The very high variance of teaching and health personnel in ECA results from a difference between Eastern Europe and the former USSR—with public employment in social sectors relatively much lower in Eastern Europe. To some extent, these sub-regional differences existed before the fall of the Berlin Wall in 1989. But in part, the difference is due to greater efforts in Eastern Europe since 1989 to improve education and health service efficiency and, to that extent, reduce personnel requirements;

- Finally, however obvious, it is essential to point out that differences in government size, by themselves, show broad trends and “flag” possible concerns, but cannot be allowed to form the basis for policy recommendations. An in-depth country-specific analysis is needed to justify any recommendation concerning the size of government employment.

On wages, the key findings are:

- For the entire sample, the central government wage bill absorbs about 5.4% of GDP. With wage rates for local government roughly estimated at about three-fourths of central government wages, (and employment in local government about equal to that in central government), *total* civilian government salaries can be estimated to absorb about 9% of GDP as a worldwide average;
- The heaviest fiscal weight of the central government wage bill is in the Middle East and North Africa (9.8% of GDP), followed by Africa at 6.7% of GDP. Asia, the OECD countries and Latin America are all between 4.5% and 5% of GDP, and the lowest percentage of GDP is accounted for by the central government wage bill in Eastern Europe and former USSR (although from the greater incidence of in-kind benefits);
- When measured as a multiple of per capita GDP, central government wages appear higher in Africa than in any other region, apparently contrary to widespread evidence concerning deterioration of public wages in Africa. This finding, however, is largely due to the lower participation rate in African countries and the higher (although unquantifiable) degree of underestimation of informal production and thus of GDP per capita. Furthermore, the African average is influenced by comparatively high salaries in franc-zone countries, which are 9-11 times per capita GDP;
- Conversely, the relatively low wage multiplier for OECD countries is related to the higher participation rate as well as the much higher GDP and smaller skill differentials between public employees and the rest of the working population;
- The lowest relative public wages are found in ECA; in this case, the figure is less misleading than the simple multiple of per capita GDP, because “private” employees in the region also receive a variety of in-kind benefits. The highest government wages are found in the Middle East and North Africa, about one-third higher than comparable private compensation.

We must again sound the same caveat here as for employment: specific wage policy recommendations cannot be based on such aggregate evidence as presented here.

Trends in the 1980s

Central government employment and wages reveal the following trends over the last decade, based on a smaller sample used by Heller and Tait in 1983:

- A large contraction in both central government employment (relative to population) and the relative wage bill is evident in all regions, with the relative size of central government

shrinking by about one-third when measured by employment and one-fourth when measured by the wage bill;

- Over the last 10-15 years, central government employment decreased in relative terms across the board, from about 2.5% of population to 1.5%;
- Among developing regions, the reduction in relative government employment took place in Africa and Asia. In Asia, this reduction was partly offset by growth in local government. In LAC, an equally impressive reduction in central personnel is almost entirely explained by a vast shift from central to local government. In Africa, total government employment fell in the 1980s both relative to population and slightly in absolute terms;
- Central government wages fell in the 1980s by about 14% when measured as a multiple of per capita GDP. However, the decline was slight in OECD countries and substantial in Africa, with government salaries holding their own in LAC, and apparently increasing in Asia. Thus, it is developments in Africa which are largely responsible for the decline in relative government wages worldwide. Furthermore, this decline occurred during a decade of economic deterioration and negative growth in Africa. In the 1980s, consequently, while the economic welfare of the average civil servant improved slightly worldwide, and significantly in Asia, it declined sharply in Africa;
- For the developing country sample as a whole, the decline in the relative weight of the central government wage bill in the 1980s was a remarkable 28%.

Determinants of government employment

According to Wagner's Law, the government tends to expand in relative size as the economy grows--both because of a consensus in favor of enlarging access to social services and because of a tendency for all large organizations to expand. Earlier studies gave some support to this proposition, and also brought out the positive association of government employment with education levels, availability of financing, and of course, population.

This study, based on a larger data set, confirms that population is by far the largest single influence on government employment levels, swamping the influence of any other variable. However, beyond this rather obvious finding, we have estimated the influence on employment relative to population of the following variables: (i) per capita income; (ii) government wages relative to per capita income; (iii) the fiscal deficit relative to GDP; and (iv) population itself. The equation has been estimated globally for each region, and separately for central government administration, local government administration, and public employment in the social sectors.

Taken as a whole, the results are consistently significant. With respect to the individual variables, the association with all three categories of relative government employment is close and positive for per capita income (confirming Wagner's Law); and close and negative for relative wages (confirming the standard expectation). For population, a significant, and negative, association is found only with relative central government employment in OECD and LAC countries (suggesting economies of scale in highly-developed central administrations).

And the expected positive association of central government employment with the fiscal deficit is visible only in some developing regions--and then very weakly--with no significant relationship emerging anywhere else or for other categories of government employment. Clearly, it is the availability of financing which matters--as found in earlier studies--and not the size of the deficit per se.

The global findings, however, are derived largely from strong results in Africa and LAC. In ECA, the lack of significant results is only to be expected, given the special data difficulties and the magnitude and fluidity of the transition. In Asia, it would appear that country-specific characteristics (other than income, wages, the deficit or population) are dominant; more detailed research, however, is needed before ruling out the influence of per capita income or of relative wages on government employment in that region. On balance, therefore, there is conclusive evidence that in developing countries relative government employment, other things being equal, is higher where per capita income is higher and relative wages are lower.

In OECD countries, the only significant association is the one previously noted between population and central government employment. The lack of association between government employment and per capita income is particularly interesting, suggesting either that the Wagner tendency was counteracted by deliberate policy in the 1980s, or that "Wagner's Law" becomes inoperative beyond a certain level of development (or both). Naturally, what association is statistically detected says nothing about causality or its direction. Concerning employment, the Wagner tendency is just that, a tendency, which can be counteracted by deliberate policy, offset by other factors, or ceases to operate beyond a certain level. Concerning wages, it cannot be inferred from sectional data that wages would rise (or fall) if employment were reduced (or increased) in any particular country. All one can say is the obvious, albeit powerful, statement that retrenchment offers the possibility of improving employee compensation, while employment expansion carries a strong risk of eroding wages.

Different regions, different problems

In sub-Saharan Africa, the civil service has sharply deteriorated in capability, incentives, integrity and morale since the 1970s. Beginning in the 1980s, a succession of fiscal stabilization programs has reduced government employment in Africa to the lowest level of any developing region. These programs have at least succeeded in limiting the fiscal burden of government employment, but have generally not addressed the severe structural problems of the public administration. Thus, though additional downsizing may be necessary in some countries, most do not need to shrink the workforce but to overhaul the entire civil service system. Disappointingly, with few exceptions, civil service reform in Africa has been limited to tinkering around the edges. Cost containment has been the entire story. Unfortunately, because of the low level of wages (especially at higher ranks), any genuine improvement in the civil service is likely to be fiscally costly. More generally, it is difficult to imagine how the civil service can be reformed on a lasting basis in most African countries without substantial improvements in governance: accountability, transparency, and adherence to the rule of law. Civil service reform--structurally complex, politically problematic, fiscally expensive--is as daunting in Africa as it is essential.

Civil service systems in **East Asia** are generally seen as efficient, motivated, and professional. Indeed, it can be argued that the correlation evident in Africa between authoritarianism and economic decline is not found in East Asian countries partly because of their strong civil services. Although greater responsiveness and openness can legitimately be demanded of public administrations in some East Asian countries, civil service systems cannot be considered a problem; they are, rather, part of the solution to these countries' other problems. The situation is markedly different in **South Asia**, where civil service reform is a top priority. In contrast to Africa, the main problem in South Asia is not a demotivated and unskilled civil service but bloated public employment, which is both a cause and a result of overregulation. Thus, regulatory simplification and the contraction of public employment, although complex and politically difficult, could raise economic efficiency, improve the fiscal situation, and reduce corruption at the same time.

In the transition economies of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS), in addition to the large variation in country experiences, broad differences exist between the CEE countries as a group and the CIS countries. While all face a common challenge of economic and political transformation--and hence of a fundamental reorientation in state structures, the CIS countries (except Russia) face the gigantic, and historically unique, double challenge of economic transformation and state building. In the CEE countries, progress in building a neutral and accountable civil service has been significant (especially in Central Europe--much less so in South-eastern Europe). In the CIS, instead, the process of re-orienting the state toward "steering not rowing" is still at an early stage, low administrative state capability is a serious and mounting obstacle to progress in economic and social areas, and a host of severe problems has emerged from a general lack of accountability and transparency. These problems give rise not only to enormous economic cost, but also to the pervasive corruption which is rightly decried almost everywhere in the region. They include, in addition to the extreme weakness of the civil service and of the central government administration, fuzzy boundaries between private and public property, heavy regulation, and a weak and inefficient judicial system.

In several countries in **Latin America and the Caribbean**, central government administration still suffers from inefficiency, waste, and corruption. However, extensive decentralization in Latin America over the past decade has had positive repercussions on overall administrative efficiency and the quality of public services. Decentralization has also been a major factor in the improvements in representative governance throughout the region. The key challenge now facing countries in the region (in addition to remedying continuing weaknesses of the central civil service) is to assure that decentralization does not dilute accountability and weaken those government functions--primarily, macroeconomic programming and monitoring--that need to remain centralized.

In the **Middle East and North Africa**, large central administrations were built up to handle the vast responsibilities assigned to the state in the 1960s and 1970s (and to guarantee employment for college graduates). Many governments in the region are now beginning to turn their attention to public administration inefficiency and the heavy fiscal weight of the central government wage bill (currently averaging almost 10 per cent of GDP). However, civil service reform in this region is intertwined with issues of governance and the delicate interaction of religion and society. Although these issues do not justify avoiding necessary

adjustments, reforms need to be formulated and implemented in a manner consistent with the region's special circumstances.

Finally, contradicting some earlier findings, there is only a slight and very weak relationship (if any) between the degree of decentralization, as measured by employment, and either per capita income or country size--in any region.

Civil service reform

Retrenchment

Rightsizing is a relative notion. That central government employment may be high in a particular country is a useful "flag" for analysis, but proves nothing in and of itself. The role of the government and degree of centralization vary from country to country. Determining the "right size" of a government workforce must be done on a country-by-country basis, taking into account the functions assigned to the state in that country, the degree of centralization, the skills profile, and, of course, the fiscal outlook.

When downsizing is necessary, it should not be approached as an end in itself or merely as a reaction to fiscal problems. Without careful planning and respect for the "law of unintended consequences", retrenchment programs carry major risks. The short-term risk is skill reduction, if the program inadvertently encourages the best people to leave. The medium-term risk is recurrence of overstaffing, if personnel management and control systems are not strengthened. Long-term risks include staff demoralization, lower-quality service and loss of credibility, if retrenchment is perceived as arbitrary and opaque, particularly in societies ridden with ethnic, clan or religious conflicts.

Wage Policy

The short-term fiscal savings from compressing wages are obvious but must not be allowed to drive wage policy. Wage adequacy, like overstaffing, is also a relative concept. Determining the adequacy of wages requires a country-specific, in-depth comparison of public-private wage differentials for comparable skills. The more "market-oriented" approach of raising wages if skills are being lost and limiting them if there is a surfeit of applicants is generally impractical in developing countries. Certainly, when public wages are too high relative to private wages, public wage cuts improve both resource allocation and equity. However, developing countries typically have barely competitive or inadequate public wages. In these cases, public wage cuts set in motion a vicious circle of demotivation, underperformance, and justification for further reductions. (Fortunately, the reverse may also be true: even small wage increases can trigger a positive dynamic).

The classic problem in wage policy is how to value the labor that produces the output of civil servants, given that such output is generally not marketable. The general solution is to make compensation comparable (not equal) to that for equivalent skills which are marketed, i.e., private sector pay. Civil service compensation operates in practice within the broad framework of public sector compensation, legislative oversight and judicial review of administrative/executive action. There are four major objectives of public compensation policy, rarely met in practice:

- Equal pay for equal work performed under the same conditions;
- Differences in pay should be based on differences in work, responsibilities, and qualifications;
- Levels of government pay comparable to those in the private sector;
- Levels of government compensation should be periodically reviewed and systematically revised to assure the continued validity of the compensation plan.

In actual practice, implementation of compensation packages raises various issues, two of the most contentious being the treatment of non-wage benefits, and the salary inequality between men and women. In the former issue, the difficulty in identifying and quantifying non-wage civil service benefits creates major problems for comparing private and public sector compensation, and also for cross-country comparisons. It also makes it difficult to assess the erosive impact of inflation on real civil service compensation. The second issue, that of (still-persistent) salary inequalities between men and women, highlights government failure to provide the model and the leadership for putting into practice the elementary fairness and efficiency principle of “equal pay for equal work”. This should be a continuing priority for government and external donors alike.

Wage Structure

In practice, government wage reduction has usually entailed larger proportionate cuts at higher salary levels (or salary caps) and, thus, progressively greater salary compression. (Internationally, average public wages range between 3 and 6 times per capita income, and the “compression ratio” between the highest and lowest salary ranges from 3:1 to 20:1, with a norm of about 7:1.) Although the short-term equity considerations are understandable, the long-term outcomes of such a policy are the departure of better employees, difficulty in recruiting qualified outsiders, and a “deskilled” workforce too poorly paid to resist temptation, cowed by pressures from politicians and influential private interests and unable to perform adequately. Beyond the deterioration of public goods and services, the result is a worsening economic climate for the private sector and an increase in transaction costs for the economy as a whole.

In recent years, governments have sought ways to target wage increases to essential skills or functions. This may well be the right policy, but a word of caution about “performance pay” is in order here. It is intuitively appealing to link bonuses to yearly performance in terms of specific output measures. However, the facts show that bonus schemes have been only marginally effective in improving performance, even in the private sector and especially in the public sector, where outputs are difficult to quantify. Performance pay schemes may also introduce an element of political control over a career civil service. And in multi-ethnic, multi-religious or clan-based societies, such schemes can be lethal to a delicate social balance. The on-going New Zealand experiment, which has had some positive results, is thus not applicable to developing countries.

Accountability

Without improvements in accountability, downsizing and more adequate incentives may result in a small and well-paid but no less inefficient or corrupt civil service. Accountability, like overstaffing, and wage adequacy, is a relative notion. The questions that need to be asked are: accountability for what and to whom. (For example, greater “accountability” of civil servants to the political leadership may compromise their integrity and autonomy.) Strengthening civil servants’ accountability to their administrative superiors (and to their subordinates as well) may be necessary, but is rarely sufficient to improve the efficiency and quality of services, because of the probability of collusion between superiors and subordinates. External accountability is essential for the civil service to become more responsive to the public; it can be increased through various means (e.g., user surveys, wearing of name tags, whistleblower laws, and public opinion polls). Of course, increased individual accountability must be accompanied by appropriate consequences; the size of rewards and severity of penalties matter less than the certainty, swiftness, transparency, and fairness with which they are applied.

Some lessons of experience

Recent efforts at civil service reform have yielded a variety of practical lessons. First, international experience shows that there are *six general conditions* for constructive efforts at reform:

- Genuine ownership of the reform is needed-- by the government as a whole if systemic issues are to be addressed, or by a major player in government if the strategy begins with reforms in an individual sector or civil service function. In either case, support from the highest political levels is necessary. Diagnostic and cost-containment measures have less stringent ownership requirements, but without active local involvement at the appropriate level, the returns will be minimal because of lack of follow-up;
- A coherent long-term vision is mandatory. Without it, pragmatism becomes ad-hockery, public support dissipates, and haphazard reform actions come to a stop. The government must therefore formulate--with appropriate participation by the public as well as government employees themselves--a clear, long-term vision of reform in concrete detail, with quantitative targets, specific timetables, explicit criteria, and indicators of performance;
- Selectivity of intervention is important because it is obviously unrealistic to try and reform the entire system all at once. By focusing interventions in those sectors which are: (i) important; (ii) amenable to significant improvements in a reasonable period; and (iii) likely to generate role-model effects, *selectivity becomes a criterion for optimal sequencing*, by strengthening in turn different institutional linkages (in the context of the long-term vision mentioned above);
- Sensitivity-- is obviously necessary to understand the situation of those affected as well as the social constraints;

- Stamina is required by the complex nature and long gestation of civil service reforms. It calls for long-term investment of imagination and resources and government willingness to stay the course;
- Institutional capacity-- although the need for capacity is evident, not all institutional capacity need be pre-existent. It can be improved as part and parcel of early interventions.

Second, common sense and growing experience point to practical lessons in *coping with the transition*:

- The government should test for the system's readiness for genuine reform by undertaking some specific action, no matter how modest;
- Diagnostic measures are both an obvious prerequisite to sensible reform, and a non-confrontational first stage of the process. Examples are functional reviews, civil service censuses, institutional assessments, pilot surveys of user opinions, and the like. Structural civil service reform measures can then build upon the diagnostic measures, provided that the results have been properly disseminated;
- Operational approaches to the reform process consistent both with actual experiences and with the New Institutional Economics include: (i) the importance of sequencing, by *strengthening the linkages* among components of the new administrative system which the government is trying to put in place, so that each decision is facilitated by the previous ones; (ii) *generating the spread of new rules and efficient organizational practices* by the deliberate creation of "efficient nuclei" (as opposed to the enclave approach); (iii) incorporating the *role of hope* for individuals within the system-- well-designed reforms should hold the promise of potential benefits for all individual civil servants; key to this is that there must be absolute confidence in the equality of opportunity of access to the new system; (iv) *internal structural adjustment* by giving individual administrative units time, guidance and positive incentives for reform.

Third, recent practice suggests some transitional measures which can help in the move away from an underperforming and underpaid civil service, but without massive fiscal implications or immediate wholesale reform. It is essential, however, that such measures be a transition to something, and hence that they be formulated as part of a coherent and concrete vision of reform and implemented as a step in the sequence leading to that reform. These transitional measures are discussed in the text.

Conclusion

This study tries to yield key reliable facts to replace the frequent myths and shibboleths concerning government employment and pay in developing countries. However, our central message is that the mere facts concerning government employment and wages in any country say nothing in and of themselves about the need or direction of civil service reform. Reform recommendations must rest on a solid basis of country-specific analysis.

It is also essential to recognize the benefits and costs of embarking on reforms in this complex, delicate and important area. The eventual *benefit* of comprehensive reform is a civil service with the size, skill-mix, motivation, professional ethos and accountability needed to provide quality public services, reduce transactions costs for the private sector, implement economic policy and execute budgets and investment projects. The *costs* of civil service reform are the substantial required resources and policy attention; often, but not invariably, a short-term political loss; and loss of credibility and sustainability of reform, if this delicate and long-gestation task is approached on a quick-fix basis. Clearly, while the potential development impact of genuine reform of the civil service is massive, civil service reform is worth doing only if it is done well. Nonetheless, even when circumstances are not ripe for genuine reform, governments and development institutions should keep a "watching brief" on civil service issues--recalling that the slide of many of today's failed states began, in part, with the degradation of their civil service.

INTRODUCTION: THE IMPORTANCE OF A SOUND CIVIL SERVICE

"Sire, a vast majority of civil servants are ill paid...The result is that skilled and talented men shun public service. The Government of Your Majesty is then forced to recruit mediocre personnel whose sole aim is to improve their weak pecuniary situation...intelligent, hardworking, competent, and motivated individuals should direct Your Empire's civil service. If treated as they well deserve, the employment of such persons can well reduce the number of civil servants to one-fourth of its current size."

(Ali Pasha, Grand Vizier to Ottoman Sultan Abdulaziz, circa 1871.
Quoted in Andic and Andic, 1996.)

Civil service issues are not a new concern. See, for example, the remarkably current policy advice on public administration and civil service reform given a century ago to Ottoman Sultan Abdulaziz by his Grand Vizier Ali Pasha (Box 1). The Sultan disregarded most of Ali Pasha's policy prescriptions. It is sobering to note that just about thirty years later the Empire was overturned by the Young Turks.

A good civil service is very important in five areas—governance, production of public goods and services, economic and social policy, budget and project execution, and fiscal sustainability.

A. CIVIL SERVICE AND GOVERNANCE

There is strong evidence from all regions that a skilled, motivated, efficient civil service with a professional ethos is one of the key requirements for good governance (defined as efficient management of public resources, accountability, transparency and the rule of law). Experience shows that *a good civil service is necessary but not sufficient for good governance; a very bad civil service is sufficient but not necessary for bad governance*. As discussed later, a strong civil service is one of several reasons why in East Asia authoritarianism has co-existed with excellent economic performance. In turn, there are fundamental links between governance and development (see World Bank, 1992).

B. CIVIL SERVICE AND PUBLIC GOODS AND SERVICES

The production of public goods is a function of social overhead capital, materials, labor (i.e., public employees) and the "technology" of their production—i.e., the rules of behavior and accountability that condition quantity and quality of public services. It would be clearly

nonsensical for the analysis of private production to exclude consideration of labor inputs, skills, and pace of technological change. Similarly, *it makes no sense for the analysis of public production to exclude consideration of the size and quality of the public workforce and of improvements in the institutional rules which guide its behavior.*

Box 1. Little New Under the Sun

Institutional development:

"Free property, sanction laws that clarify transactions, make them precise and less burdensome. Then the property owner will have no doubt about his undisputed rights."

Government administration:

"A program to strengthen the administration must be formulated. Responsibilities will have to be well defined and the spheres of action delineated...Introduce the indispensable principle of accountability, without which all progress is retarded and work inevitably destroyed."

Public financial management:

"Once the budget is determined and approved, the Ministry of Finance should have at its disposal the monies to be allocated to each service. No other ministry, nobody...under any pretext should have the budget altered or the funds diverted from their initially allocated use."

Civil service reform:

"A vast majority of civil servants are ill paid. The result is that skilled and talented men shun public service and look for more honorable and remunerative means of livelihood...If treated as they well deserve, the employment of such persons can well reduce the number of civil servants to one-fourth of its current size."

Corporate governance of public enterprises:

"Reject definitely to have factories managed by public employees. Convert into shares all their assets, and leave their administration and management to private companies. The Government would be represented on their boards, have the right to oversee, and receive dividends."

*Excerpts from the Political Testament of Ali Pasha, Prime Minister to Ottoman Sultan Abdulaziz, circa 1871.
(See Andic and Andic, 1996.)*

C. CIVIL SERVICE AND ECONOMIC POLICY REFORM

Economic policy reforms can be subdivided between "enabling" reforms (e.g., lifting price controls) and "affirmative" reforms (e.g., improving public expenditure management). While the former do not require much administrative capacity, affirmative reforms depend for their implementation on competent and motivated government personnel. Unfortunately, in country after country (and especially in Africa and in the transition economies of the former

USSR) good reform programs are formulated in all detail but one: who will implement them? The issue is well-known, but the obvious implication of the need for an efficient and professional civil service for policy implementation is rarely translated into action. It is easier to assume that, somehow, good policies will implement themselves. They never do. (Besides, implementation failures show up sometime after the fact, when those responsible have long since moved on).

D. CIVIL SERVICE AND PUBLIC EXPENDITURE

The *execution of current and investment budgets* is a subset of the policy implementation issue. It is hard to disregard the dominant influence exercised by the public employees involved in these areas; yet, project-specific ad hoc remedies (such as payment of bonuses to attract the best people) are insufficient, messy and often counterproductive in national economic terms. Much of the negative impact of technical assistance in this area, discussed later, is due to the destructive raiding of donors of the best local personnel, for the sake of improving performance of their projects at the expense of the system as a whole.

E. CIVIL SERVICE AND FISCAL SUSTAINABILITY

The *fiscal burden* of the wage bill is considerable in countries with a large government, and efficient downsizing of government calls for intelligent ways to reduce numbers and/or wages of public employees. The "alternative" of closing one's eyes to unsustainable expenditure levels is invariably far greater costs and absorption down the line. However, *it matters not only how much the wage bill is reduced, but how it is reduced*, as we will discuss extensively in Chapter II (see also World Bank, 1996).

I. GOVERNMENT EMPLOYMENT AND PAY: THE INTERNATIONAL FACTS

A. METHODOLOGICAL PROBLEMS

As Heller and Tait (1983, p. 35) noted: "It is surprising and depressing how little information is readily available on public sector employment and pay". Although this study attempts to remedy, in part, this state of affairs, the paucity of readily available data is explained by persisting methodological difficulties. There is no more hazardous cross-country comparison than in the area of "civil service" employment and wages. The following methodological problems have been pointed out years ago and are still present. For a detailed listing and discussion of methodological problems in the area of government pay and employment, the reader is referred to Heller and Tait (1983).

In the first place, statistics of any reliability simply don't exist in many countries. When reasonable data are available, international employment comparisons are complicated by the fact that some countries include teachers and/or health workers in the civil service, others don't; some countries include contractual and seasonal (sometimes even daily) workers in government employment, others don't; local government employment may or may not include employees paid out of the central government budget; accordingly, large numbers of persons may be paid out of the central budget but are not listed among central personnel; paramilitary personnel (*gendarmes*, *carabinieri*, etc.) may be included in civilian personnel because of their public order functions, or in the armed forces because of their military status; employees of legislative bodies are sometimes included in government personnel, etc. And, because the basic social services—education and health—raise different policy and practical issues than government administration, it is useful to try and separate out employment of teaching and health personnel.

International comparisons are even more problematic for government wages than they are for employment. To begin with, the existence of different benefits-in-kind in different countries makes it impossible to be sure that differences in monetary compensation adequately reflect differences in total compensation. Even when comparisons are limited to monetary compensation, there are serious problems. If wage rates are derived from independent surveys or from official information on pay scales, it is impossible to treat non-wage allowances and other monetary benefits uniformly—because certain sources will include them in the wage package while others show only the basic salary. However, budgetary figures on the overall wage bill paid for through the central budget are generally reliable, because monetary allowances are usually captured in the central government budget, and properly classified under the wages and salaries item of the budget. For this reason, measuring the relative 'weight' of the government wage bill, by defining it as a fraction of GDP or of total expenditure is both reasonable and reliable. Compensation rates are a different matter: dividing the central government wage bill by the number of employees listed as *working for* the central government will always tend to inflate average compensation, because significant (and variable) numbers of employees are paid out of the central budget but work for, and are shown as part of, local government entities. Consequently, it is necessary, *country by country* and by recourse to

different sources of information, to adjust the figures on personnel paid from the central government—in order to obtain a good approximation of average monetary compensation.

Assessing wage “adequacy”, or even only ranking countries by relative levels of wages, presents additional difficulties. Exchange rate problems make reliable conversion into a single numeraire difficult. Relating public wages in local currency to other meaningful variables also in local currency obviates the exchange rate problem, but raises the obvious issue of the appropriate denominator. The only reliable measure of the adequacy of government wages is through a statistically-representative survey of public and private salaries — for comparable skills, in a given country and at a given time. Because such surveys are not common (only a few among the World Bank's private sector assessment studies contain such information), this is an impossible standard when large-scale international comparisons are at issue. In addition, the researcher today must contend with the statistical and methodological peculiarities of some Eastern European countries and of all the former Soviet republics. The reader is referred to World Bank (1993), where these problems have been explained at length. Accordingly, we have used in this study three measures of relative government wages: average central government wages relative to wages in manufacturing (the only statistic available, from the International Labor Organization, for a large number of countries on a uniform basis); average wages as a multiple of per capita GDP; and what secondary sources do exist concerning the ratio of government to private wages for a few countries in each region.

These difficulties preclude the inclusion of all countries. We were able to collect and verify government employment and wage data for 80-100 countries in the early 1990s, including all sizable countries in every region (with the exceptions of Brazil and Mexico)—the largest such survey to-date. The statistical Appendix in the companion study contains the country-by-country data on labor force, total employment, government employment and government wages. This paper shows the global and regional averages. The information was obtained from international surveys, international and national country reports, World Bank, UN, OECD and IMF reports--and was verified with IMF and World Bank country economists and in many cases with World Bank Resident Missions. The text tables and the regional averages are based only on countries for which reliable data could be found or estimated concerning: central government administration employment; local government administration employment; teachers; and health personnel. In the course of the research, we also came across information on employment in state-owned enterprises and the military. This information is partial, not verified, and not used in the text: it is included in the companion study because of the low cost of doing so and because it may be useful to the reader for other purposes. This paper deals exclusively with civilian government employment and wages and not at all with employment in public enterprises or the military—which raises quite different policy and empirical questions.

Although the size of the sample for each region is sufficiently large to make it representative of the region as a whole (and accounts for about 90% of the world's population), the above qualifications make it clear that one should take the regional averages shown below only as pointers for further analysis. For example, the extremely low civil servants' compensation in Eastern Europe and the former USSR is, in part, a clue to the many in-kind subsidies and benefits enjoyed by public employees in that region. In a real sense, it is the country-by-country data which matter, although even these can be quite misleading in the absence of knowledge of the country and the circumstances.

B. THE BASIC PICTURE IN THE 1990S

1. Employment

Table 1 and Figure 1 show civilian employment in central and local government administration, and teaching and health employment in the various regions—as percentage of population. The key findings are as follows:

- worldwide, total government civilian employment currently averages (on an unweighted basis for all the countries of the sample) about 4.7% of population. It is relatively largest in the developed market economies of the OECD (7.7% of population), and second largest in Eastern Europe and the former Soviet Union (Europe and Central Asia — ECA), at 6.9% of population. Government employment is relatively smallest in Africa and Asia (respectively, 2.0% and 2.6% of population). Latin America and the Caribbean (LAC), and the Middle East and North Africa (MENA) are in between, with employment accounting for about 3.0% and 3.9% of population respectively;
- relative to total employment (Table A-2 of the companion study), the inter-regional differences are much less marked, because of the significantly lower labor participation rate and higher unemployment in developing regions. The regional rankings change somewhat, moreover, with MENA moving up to the highest regional average. Worldwide, civilian government employment accounts on average for about 11% of total employment, with MENA countries highest at 17.5 %, OECD at 17.2%, ECA and LAC at 16.0% and 8.9%, respectively. Africa and Asia are at the low end with 6.7% and 6.3%, respectively;
- the picture changes if teachers and health personnel are excluded. Because of the large numbers of such personnel in ECA (from long-standing Soviet policy), the large overall employment in those countries is primarily in teaching and health. The central administration in that region is comparatively not large, and is very small in the former Soviet republics. Among developing regions, central administration is largest in the Middle East and North Africa. Overall, government administration in developing regions, at 1.7% of population, is less than half the relative size of OECD countries. Education and health personnel, too, average in developing regions (excluding ECA) less than half the level of OECD countries;
- during the 1980s, local government administration has grown to almost equal employment in central administration. Clearly, civil service reform efforts are badly incomplete if they do not include consideration of local government and of teaching and health personnel;
- predictably, inter-country and inter-regional variance is smallest for overall government employment (with a coefficient of variation of 0.48), than for either central or local administration or for education and health personnel;
- the inter-country variability of government employment is the only category for which there is no difference between industrial and developing countries, suggesting that the range of choices on the role of government does not diminish with economic growth. If

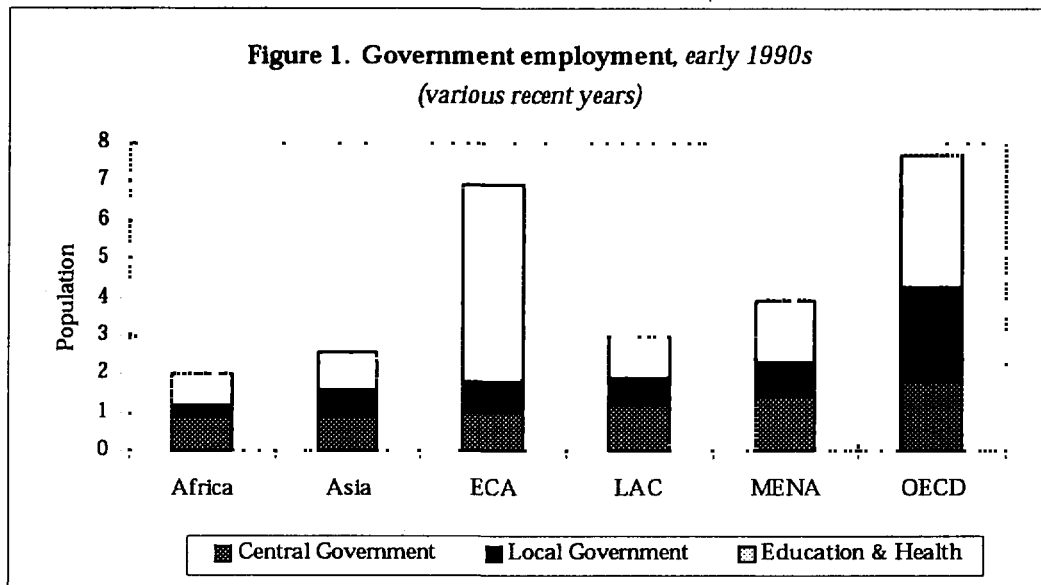
there is a tendency toward “convergence” in public administration, it is certainly not borne out by the facts of government employment.

- the relatively low variance in LAC for total government employment, combined with the high variance for central administration, local administration and health/education taken separately, points to the inverse correlation existing in that region between the size of central government and that of local administration. (The reasons are summarized in the next section);
- it is also worth noting that the high variance of teaching and health personnel in ECA (with a 9.0 coefficient of variation) results from a clear difference between Eastern Europe and the former USSR—with public employment in social sectors relatively much lower in Eastern Europe. To some extent, these sub-regional differences existed before the fall of the Berlin Wall in 1989. But in part, the difference is due to greater efforts in Eastern Europe since 1989 to improve education and health service efficiency and, to that extent, reduce personnel requirements;
- finally, however obvious, it is essential to point out that differences in government size, *by themselves*, show broad trends and “flag” possible concerns, but cannot be allowed to form the basis for policy recommendations. In-depth country-specific analysis is needed to justify any recommendation concerning the size of government employment. This basic point is discussed further in Chapter II.

Table 1. Government Employment, early 1990s
(as percent of population)

	No. of Countries	General Government	Government Administration		Teaching & Health
			Central	Local	
Africa	20	2.0	0.9	0.3	0.8
Asia	11	2.6	0.9	0.7	1.0
Eastern Europe & former USSR	17	6.9	1.0	0.8	5.1
Latin America & Caribbean	9	3.0	1.2	0.7	1.1
Middle East & North Africa	8	3.9	1.4	0.9	1.6
OECD	21	7.7	1.8	2.5	3.4
Overall	86	4.7	1.2	1.1	2.4

Source: Table A-2 of companion study. All averages are unweighted.



2. Wages

Table 2 and Figure 2 show the fiscal weight of the central government wage bill, and average wages as a multiple of per capita GDP and in relation to private wage levels. The reader should keep in mind the qualifications made earlier concerning international comparisons of relative public wages. Note also that, while the data for the wage bill ratio and for average wages as multiple of GDP are averages for over 90 countries—and therefore highly representative—the ratios of public to private sector wages come from a handful of countries for which evidence (primary or secondary) can be found. The reader is advised to treat all of these figures—and especially those in the last column, with a large dose of salt. Another indicator of relative public wages exists as well: the ratio of public wages to average wages in manufacturing. This indicator permits much broader country coverage, because manufacturing wage data are collected and published by the ILO for a large number of countries on a regular basis. However, it gives a misleading comparison, as public wages are generally for white-collar skills, while wages in manufacturing are generally for lower-paid blue-collar jobs. The comparison (which we have carried out and is included in Table A-3 of the companion study but is not shown in the text of this paper) is also misleading from a policy viewpoint—for it produces the false impression of a relatively well-off civil service. In conclusion, therefore, while every measure of relative wage adequacy is imperfect to some degree (except in the few cases where a private pay comparability survey exists—cases which, however, cannot be taken as fully representative of other countries), they all produce consistent results, summarized below:

- for the entire sample of about 90 countries, the central government wage bill absorbs about 5.4% of GDP. With wage rates for local government roughly estimated from information for a few countries at about three-fourths of central government wages, and based on the employment information shown in Table 1, *total* civilian government salaries can be estimated to absorb about 8% of GDP as a worldwide average;
- the heaviest fiscal weight of the central government wage bill is in the Middle East and North Africa (9.8% of GDP), followed by Africa at 6.7% of GDP. Asia, the OECD

countries and Latin America are all between 4.5% and 5% of GDP, and the lowest percentage of GDP is accounted for by the central government wage bill in Eastern Europe and former USSR;

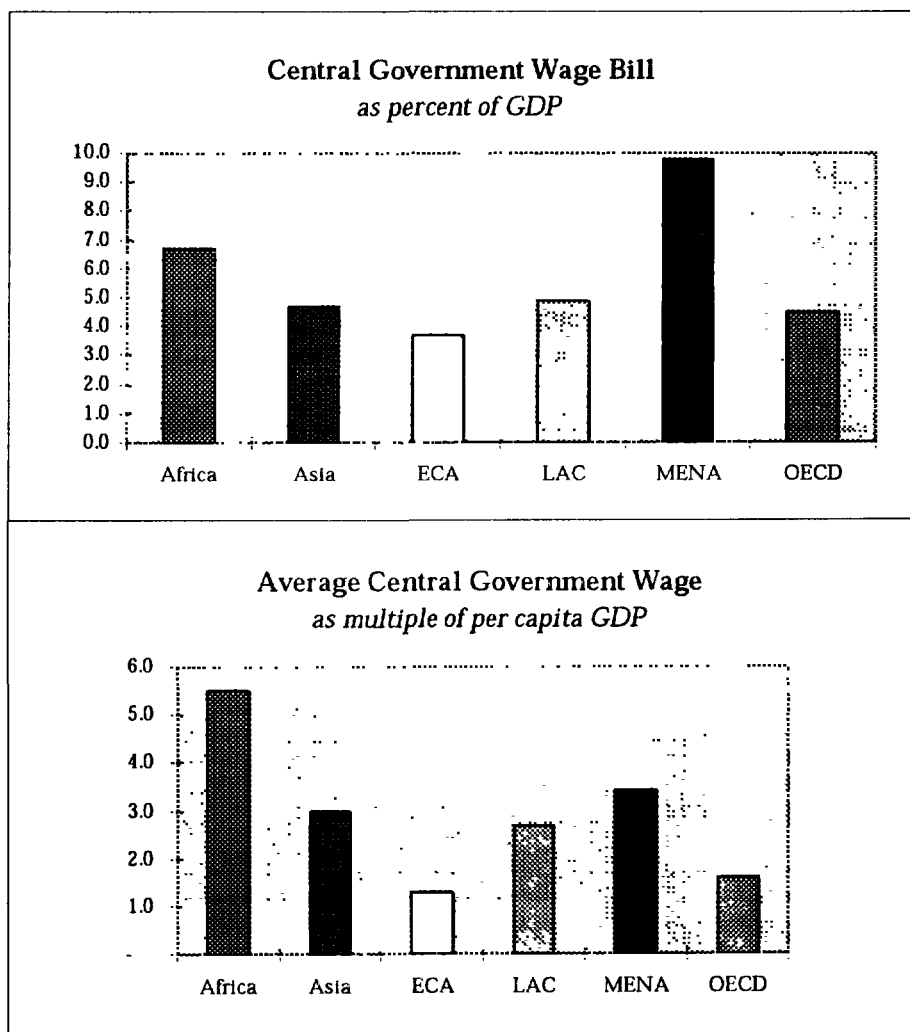
- when measured as a multiple of per capita GDP, central government wages appear higher in Africa than in any other region, apparently contrary to widespread evidence concerning deterioration of public wages in Africa. This finding, however, is largely due to the lower participation rate in African countries (see Table A-1 of the companion study) and the higher (although unquantifiable) degree of underestimation of informal production and thus of GDP per capita. Furthermore, the African average is influenced by comparatively high salaries in franc-zone countries, which are 7-11 times per capita GDP. It is, thus, entirely possible that government wages may still be higher than needed to attract and retain qualified government personnel in franc-zone countries. In most of the rest of Africa, instead, the widespread consensus about severe wage inadequacy is most probably right;
- conversely, the relatively low multiplier for OECD countries is related to the higher participation rate as well as the much higher GDP and smaller skill differentials between public employees and the rest of the working population. As noted earlier, the low figure for ECA is *in part* explained by the existence of a variety of benefits-in-kind which are not captured in the available data. But the reality of government wage inadequacy in the region (especially the former Soviet Union) is undeniable;
- the above findings are supported by data for 16 countries, from a variety of sources, concerning the relationship of public to private wages for comparable skill-mixes. Although the data are fragmentary and for a small sample, the picture conforms roughly with the findings from the other indicators. Generally, government employment carries a "discount" of 10-20%—which is not unreasonable considering the greater job security. The lowest relative public wages are found in ECA; in this case, the figure is less misleading than the simple multiple of per capita GDP, because "private" employees in the region also receive a variety of in-kind benefits. The highest government wages are found in the Middle East and North Africa, about one-third higher than comparable private compensation;
- at the risk of sounding pedantic, we must conclude this section with the same caveat as for employment: wage policy recommendations cannot be based on such aggregate evidence as presented here. However, the regional evidence does give some context to individual country data, and provides a basis for assessing broad trends over time—to which we now turn.

Table 2. Central Government Wages, early 1990s

	No. of countries	Central Government Wages and Salaries as % of GDP	Average Central Government Wage as Multiple of per capita GDP	Ratio of Public to Private sector wages
Africa	21	6.7	5.7	1.0
Asia	14	4.7	3.0	0.8
ECA	21	3.7	1.3	0.7
LAC	12	4.9	2.5	0.9
MENA	8	9.8	3.4	1.3
OECD	16	4.5	1.6	0.9
Overall	92	5.4	3.0	0.8

Source: Table A-3 of the companion study for the first two columns; various reports and World Bank project documents, for about 16 countries, for the ratio of public and private wages.

Figure 2. Central Government Wages, early 1990s



C. CHANGES OVER THE LAST DECADE

In 1983, Peter Heller and Alan Tait produced an international comparison of government employment and wages, covering a sample of about 45-50 countries. Table 3 and Figure 3 compare some of their findings with our data for the same countries (*hence different from the data for our larger sample*). Furthermore, for comparability, it is necessary to limit the sample to central government employment and wages only. Nevertheless, the trends are clear. The following salient points emerge:

- a large contraction in both central government employment (relative to population) and the relative wage bill is evident in all regions, with the relative size of central government shrinking by about forty percent when measured by employment and one-third when measured by the wage bill;
- central government employment decreased in relative terms across the board during the 1980s, by about one-third for OECD, Africa and LAC and whopping sixty percent for Asia. The reduction was only in part offset by growth in local government. In LAC, the reduction in central personnel is largely explained by a vast shift from central to local government. In Africa, the reduction in Central Government employment was reinforced by a probable shrinkage in local government as well;
- relative central government wages fell in the 1980s by about 14% when measured as a multiple of per capita GDP. The decline was slight in OECD countries and substantial in Africa, with government salaries holding their own in LAC, and apparently increasing in Asia. (The Asia result, however, is heavily affected by India which after 1986 increased the salaries of its civil servants. Average wages as multiple of per capita GDP appear steady in Asia, if India is removed from the sample.) Thus, it is developments in Africa which are largely responsible for the decline in relative government wage in the overall sample. Moreover, the decline in African wages relative to GDP occurred in a decade of severe economic contraction, while the rest of the world was experiencing some degree of economic growth. Consequently, while the economic welfare of the average civil servant improved slightly worldwide, and significantly in Asia, it declined sharply in Africa;
- because of the concomitant contraction in central government employment, the central government wage bill as proportion of GDP dropped in Africa on *both* accounts. To this must be added the reduction in the central government wage bill in both Asia and Latin America (in Latin America because of the already-noted move to decentralization). As a result, for the developing country sample, the decline in the relative weight of the central government wage bill in the 1980s was 28%.

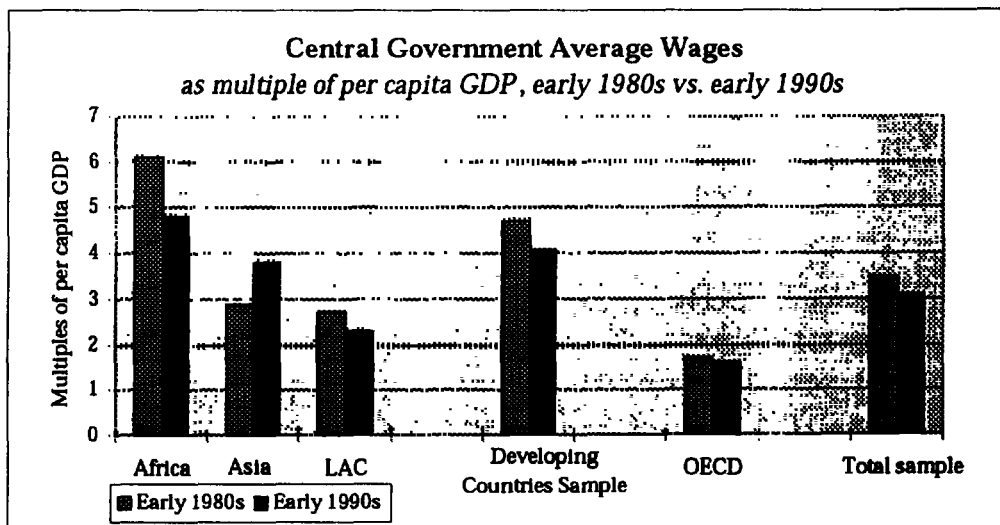
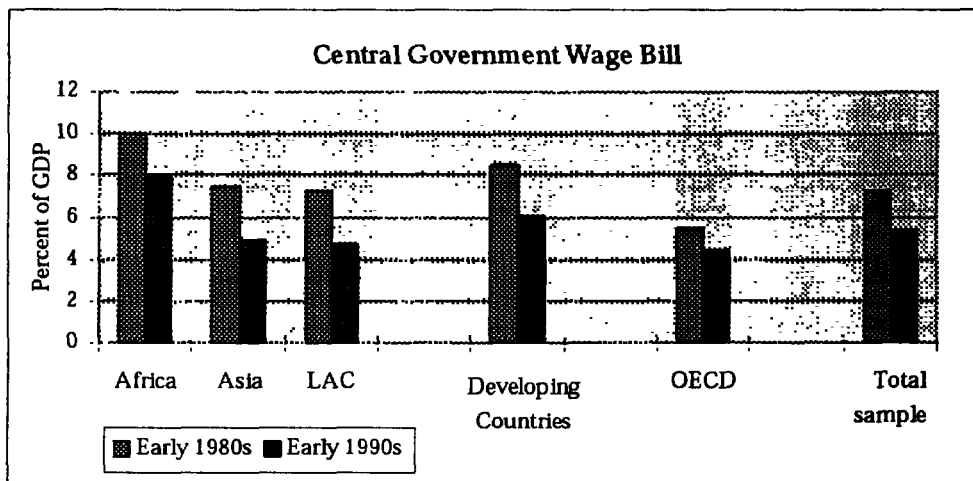
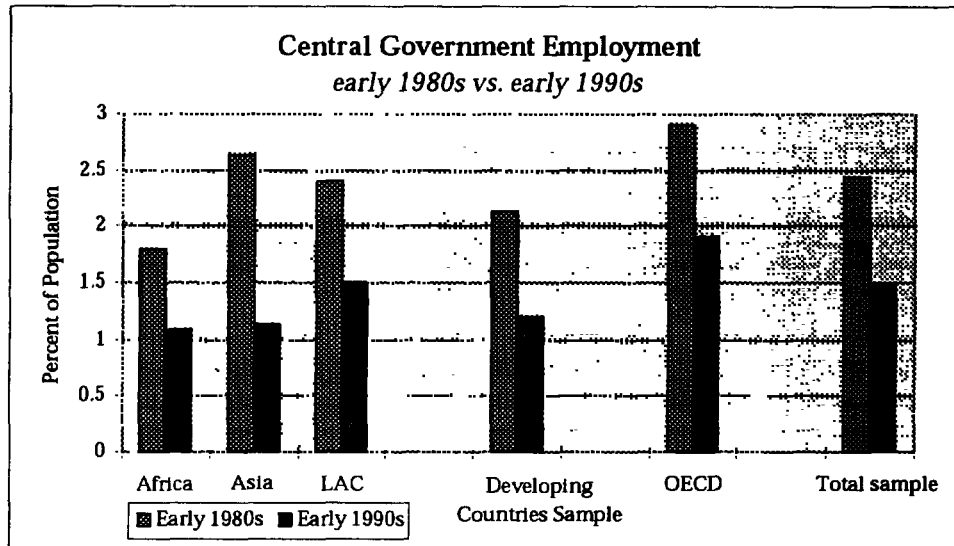
**Table 3. Government Employment and Wages,
early 1980s and early 1990s**

	<i>N</i>	<i>Central Government as percent of population</i>		<i>N</i>	<i>Central Government wage bill as percent of GDP</i>		<i>N</i>	<i>Central Government average wages as multiple of per capita GDP</i>	
		<i>Early 1980s</i>	<i>Early 1990s</i>		<i>Early 1980s</i>	<i>Early 1990s</i>		<i>Early 1980s</i>	<i>Early 1990s</i>
Africa	13	1.8	1.1	8	10.0	7.9	12	6.1	4.8
Asia	5	2.6	1.1	5	7.5	4.9	5	2.9	3.8
Latin America	5	2.4	1.5	7	7.3	4.7	4	2.7	2.3
Developing country sample	23	2.2	1.2	22	8.5	6.1	22	4.7	4.1
OECD countries	19	2.9	1.9	14	5.5	4.4	11	1.7	1.6
Total sample	40	2.5	1.5	30	7.3	5.4	29	3.7	3.2

Source: For early 1980s Heller and Tait, 1983; for early 1990's Annex A-3, Annex A-4 of companion study.

* Note that the data for the early 1990's are limited to the Heller and Tait sample. They are therefore different from those for the larger sample in this study. *N* represents the number of countries in the sample.

Figure 3. Government Employment and Wages



D. THE DETERMINANTS OF GOVERNMENT EMPLOYMENT

According to the so-called "Wagner law", the public sector tends to expand faster than the economy--in other words, growth is positively correlated with the public expenditure share of GDP. The standard explanations are the need for countervailing the power of large industries, the costs of regulating a more and more complex economy, and the assumption that many public goods are socially "superior goods". Organizational theory, moreover, argues for an inherent tendency of all organizations to expand; because of lower contestability for state activities, this is more likely to translate into actual expansion of state organizations.

There is some evidence (e.g. Lindauer, 1981, Martin, 1982, Diamond, 1977 and Bird, 1971), including that presented in this paper, in favor of this proposition. In the simplest formulation, it is surely not accidental that government employment in OECD countries is twice as high, relative to population, as in the rest of the world (see Table 1). However, the size of the public sector is a function of several factors other than levels of development. As only the most dramatic such factor, recall the far-reaching changes wrought--or made possible--by the on-going revolution in information technology.

Thus, Heller and Tait (1983) found that, in addition to the positive relationship between GDP per capita and government employment, employment was higher in centrally planned economies (obviously to be expected) and the share of central government to total government employment decreased at higher income levels. And Kraay and Van Rijckeghem (1995) noted a positive association of government employment with degree of urbanization, education levels, and--predictably--resources available to the government.

We have estimated here the influence on government employment of the following variables: (i) per capita income, (ii) government wages relative to per capita income; (iii) the fiscal deficit relative to GDP; and (iv) population. First, we estimated this relationship for the absolute number of employees. The results (not shown here) confirm that the influence of population on government employment swamps that of any other variable. To go beyond this rather obvious finding, we then used as the dependent variable employment as percentage of population.

The companion study shows, globally and for each region, and for central government administration, local government administration, and public employment in the social sectors, the results of estimating the following equation:

$$E = f(C, GDP, WAG, DEF, POP), \text{ where}$$

E = government employment as percent of population;

GDP = per capita GDP in US dollars;

WAG = average central government wage as percent of per capita GDP (both in local currency);

DEF = central government fiscal deficit as percent of GDP (both in local currency); and

POP = population in thousands.

The suffixes in the companion study denote the following: CG, LG, SS are respectively, employment as percentage of population in central government, local government, and education and health, and GG is general government, i.e., the total of the above. ES denotes the entire sample; DEV denotes non-OECD countries, and OECD, AFR, AS, ECA, LAC and MENA the various regions. (Thus, for example, GGLAC means total civilian government employment as percent of population in the Latin American sample of countries.)

The general expectation would be as follows. If Wagner's Law is valid--in any of its meanings--government employment should be positively associated with per capita income. The association between public employment and public expenditure is well established. Concerning wages, one would expect to find lower relative wages in countries with relatively higher government employment. Next, if the workforce (rather than the wage level) is the main determinant of the wage bill, higher levels of relative central government employment should be associated with higher fiscal deficits. Finally, a negative link between population and administrative employment would confirm other evidence of scale economies in the production of administrative services while a negative link with public employment in education and health could suggest the existence of more developed private provision of social services.

Because reliable data on fiscal deficits are not available for all countries, the equation is estimated for 57 countries out of our total sample of 105. This is still large enough to provide a sufficient number of degrees of freedom, both globally and for each region (except ECA; for ECA, therefore, the regressions shown in the companion study exclude the deficit variable). Furthermore, the findings (not shown here) from re-estimating all equations in the companion study without the deficit variable are very similar to those discussed below. In the larger equation applied to the smaller sample, the R-squareds are greater and the individual regression coefficients about the same. Thus, the picture described below can be considered valid for a sample of well over half of the world's countries in the early 1990s.

1. The Global Picture

The regression results are generally satisfactory, with the following salient points:

- globally, all R-squareds are significant at least at the 0.95 level. For total government employment, central government, local government and the social sectors, respectively, the adjusted R-squareds are 0.52, 0.36, 0.44 and 0.36;
- the closest association (positive) of government employment is with per capita income. When added to the results of earlier studies (e.g. Lindauer, 1981; Heller and Tait, 1983; Graag and Van Rijckeghem, 1995), this finding for a much larger sample removes all reasonable doubt about the validity of "Wagner's Law". However, this is not true in the OECD countries (see below). Also, because the 'law' has very different possible meanings, the actual dynamics of the relationship between growth and government require in-depth country-specific analysis. (As stressed later, a very small civil service can still be 'overstaffed' if inefficient or

corrupt; and a case can be made for expanding even a large government workforce if it is insufficient to fulfill deliberate social choices);

- the next closest association (negative) is between central government employment and relative wages, confirming the standard expectation. (That there is no significant relationship between wages and local government is easily explained by our being obliged to use central government wages as a proxy);
- although inclusion of the fiscal deficit variable generally adds to the explanatory power of the overall equation, the deficit coefficients themselves are not significant--except in Africa, where the correlation between central government and the deficit is even closer than between employment and low relative wages. Generally, whatever influence government employment has on the deficit seems to be largely offset by the concomitant lower wages. Certainly, the availability of financing (stressed by Kraay and Van Rijckeghem, 1995) appears to be far more important than the level of the deficit per se;
- finally, although the coefficient for population generally carries the negative sign expected from the possibility of administrative scale economies, the relationship is weak and inconclusive--except for central government in the OECD countries and in Latin America. This suggests that administrative scale economies come into play only beyond a rather large scale and for the more developed central administrations.

2. The Regional Picture

The global findings are almost entirely due to the influence of Africa and LAC. Although the overall R-squareds are comparable for both the OECD and the non-OECD group, the only marginally significant associations in the OECD group are between central government and population (negative), and between local government and the fiscal deficit. The probable meaning of the association has been noted earlier. The second association, between a higher central deficit and greater local employment, is anything but obvious. One possible explanation is that, in OECD countries, decentralization has meant that revenue has been transferred to local entities more than in proportion to the devolution of expenditure responsibilities. In developing countries, instead, a lower central deficit is associated with higher local government employment, suggesting a downloading of fiscal problems from the center to local governments. Both explanations, of course, are tentative and much more analysis would be needed.

What is more intriguing is the absence of any association, in the OECD group, between relative wages and government employment. Among the possible explanations are a much higher elasticity of demand for government employees in advanced countries, or a greater weight of the psychic income derived from public service--given that in countries with high per capita income and high participation rates, a salary equal to a relatively low multiple of per capita income permits a two-earner family to live reasonably well.

The lack of association in the OECD group between government employment and per capita income is also of considerable interest--and is in contrast with the findings for earlier times (e.g., Martin, 1982). This means either that the Wagner tendency has been counteracted by deliberate policies in the 1980s, or that "Wagner's Law" itself becomes inoperative beyond a certain level of development--or both.

With adjusted R-squareds of up to 0.85 (for central government in Africa), the regression results are significant for Africa and LAC. For MENA, the lack of significance is partly explained by the small sample. For ECA, it is easily explained by the special data difficulties and by the magnitude and fluidity of the economic and administrative transformation. For Asia, instead, it would appear that country-specific characteristics (other than income, wages, deficit and population) influence government employment. However, more detailed research is needed before any such firm conclusion. It is possible, for example, that the lack of significant results in both regions stems from intra-regional difference--between South Asia and East Asia, and between CEE and the former USSR (the very different nature of civil service problems in these sub-regions is discussed in the next section). It is impossible, however, to test for these differences, as the degrees of freedom would be too few.

Other main findings are:

- the results are most striking in *Africa*, where the equation has the largest explanatory values and, for central government employment, every co-efficient is of the expected sign and highly significant (except for population). The evidence is now conclusive that the proportion of population employed by African central governments is higher where per capita income and the fiscal deficit are higher, and wages relatively lower. Local government employment is significantly correlated only with per capita income, and employment in public teaching and health only with wages;
- the correlation in *Latin America* between central government and wages is almost as close as in Africa. As noted earlier, this region also shows the closest negative association between central government employment and population--again, strongly, suggesting the presence of administrative scale economies. However, because all the smaller countries are concentrated in the Caribbean, the small population-large administration connection could also be explained by economic or cultural differences (other than just population size). Interestingly, too, while there is no association between per capita income and central government administration, employment in local government is strongly correlated with the country's income level. This finding supports other evidence concerning the importance and pace of decentralization in Latin America;
- finally, in the *Middle East and North Africa*, although the equation as a whole appears to be significant for all levels of government, and the individual co-efficients are generally of the expected sign, the statistical significance is weak for all coefficients.

3. A Concluding word

There is no longer a reasonable doubt that in developing countries comparatively high central government employment is associated with comparatively high per capita income and lower relative wages. But, of course, statistical associations say nothing about causality or its direction. Furthermore, the Wagner tendency is just that--a tendency--which, as the data for the OECD suggest, can be counteracted by deliberate policy. Concerning wages and employment, it would be especially risky to infer from cross-sectional data anything concerning the likelihood that wages would rise (or fall) if employment were reduced (or increased) in any particular country. All one can say is the obvious, albeit powerful, statement that retrenchment offers the possibility of improving employee compensation, while employment expansion carries a strong risk of eroding wages.

E. DIFFERENT REGIONS, DIFFERENT PROBLEMS

The key features and challenges of civil service reform in the various developing regions are summarized below. As in the case of the statistical comparisons, these are of necessity very broad generalizations. Several countries in each region have had experiences entirely different from those sketched out below. Continental generalizations can be badly misleading for particular countries, and the following generalizations should be promptly discarded as soon as they appear in conflict with country-specific realities. Nevertheless, they have some utility in providing a broad regional context.

1. Africa

It is in Africa where, with few exceptions (i.e., Botswana), the degradation of the civil service has been most severe. There are differences, for example in franc-zone countries where, by and large, the civil service is much better paid (with wages averaging up to ten times per capita GDP, compared to a continental average of 5.5 times per capita GDP). But generally, government employment in sub-Saharan Africa is at the lowest size and efficiency level of any developing region. While further downsizing remains in order in some countries, the clear need in most African countries is for a thorough overhaul of the system to make it produce good quality public services and act to facilitate private activity. Disappointingly, with some promising exceptions (e.g., Uganda — see Box 2), civil service reform in Africa has been generally limited to tinkering around the edges and to paper reforms. Despite growing interest and assistance by international organizations, meaningful administrative and civil service reform has yet to touch most of the continent. Cost-containment has been the entire story.

Box 2. Uganda: Rebuilding a Broken-Down Civil Service

At independence in 1962, Uganda had one of the strongest and most promising economies in Sub-Saharan Africa. From about 1970, two decades of political turmoil and gross economic mismanagement radically changed the situation. Oppressive and unrepresentative regimes, inadequate salaries and the consequent migration of educated and skilled work force, lack of basic equipment and supplies, destruction of buildings and inability of the government to restore discipline led to the breakdown of one of the most effective public administrations in Eastern Africa.

Capacity rebuilding efforts in Uganda commenced after the National Resistance Movement (NRM) Government assumed power in January 1986. Recognizing the lack of skilled staff from insufficient incentives, the Government began an aggressive effort to increase remuneration in the Civil Service. Because of the budget constraint, increasing salaries also meant reducing the total complement of staff. The initial attempts at reform focused on reducing the numbers of part-time employees and streamlining the number, roles and functions of ministries. In October 1990, a policy framework for a comprehensive civil service reform was presented by the Public Service Review and Reorganization Commission (PSRRC). Its implementation has resulted in significant real increases in salaries; a reduction in the number of ministries from 38 in 1989 to 21 currently; and the rationalization of ministerial mandates and structures to remove duplications and overlaps. In particular, remarkable progress has been achieved in reducing staff from 320,000 in 1989 to around 148,000 currently. This retrenchment was made easier by the extremely low wages prevailing at the time, and permitted a substantial improvement in wages for remaining employees. In addition, there has been significant decentralization of central government responsibilities for service delivery to the districts.

Despite these achievements, major issues remain to be addressed, with aid from the World Bank and other donors: improving central personnel management systems; reclassification of personnel; improving transparency and efficiency of personnel administration and establishing improved personnel regulations. A new salary structure is to be put in place, and a performance recognition system is being developed, as well as a Code of Conduct for civil servants, as a move towards greater accountability. For the same reason, it is also intended to strengthen the Inspection Department of the Ministry of Public Service and introduce results-oriented management, focusing civil servants on service delivery through the achievement of definite objectives within specified time targets.

Box 3. Burkina Faso: Ratcheting to Higher Wages

Burkina Faso is an exception to the general reality of poorly paid African civil servants. The average civil service wage in Burkina Faso was 12 times per capita income in 1994, compared with the African average of five times per capita income.

Not coincidentally, the size of the civil service in Burkina Faso is relatively modest. Nevertheless, between 1980 and 1990, about 55% of Burkina Faso's domestic expenditures and more than 60% of its tax revenues were absorbed by government wage expenditures. The compensation structure includes the following:

- An automatic promotion system has resulted in the number of professionals in the civil service exceeding the number of support-level staff by about 80%. This has contributed, over time, to increases in the average rate of civil service remuneration. Lower-level staff can also be promoted fairly easily into the professional grades by passing an internal examination. Civil servants are also relatively young, with almost two-thirds aged between 21 and 40. Employees with more than 20 years of service account for less than 10% of total staff, while those with less than 10 years account for almost two-thirds;
- Given the age and grade structure of staff, the effect of the automatic promotion has been to increase the average civil service salary by about 5% per year, substantially greater than the growth rate of per capita national income. The larger portion of the annual 5% increase has been due to the automatic advancement process. The remainder reflects the growing proportion of employees in the higher grades (traceable to the high percentage of university graduates among new recruits each year);
- A recent survey has also found that salaries were being paid to a number of ghost workers.

A number of measures have been taken since 1991 to contain wages, and there have been efforts to restructure the civil service towards high priority social services. While these efforts are beginning to bear fruit, wage outlays in Burkina Faso continue to remain high relative to both total expenditures and government revenue, while Burkina Faso's social indicators remain weak.

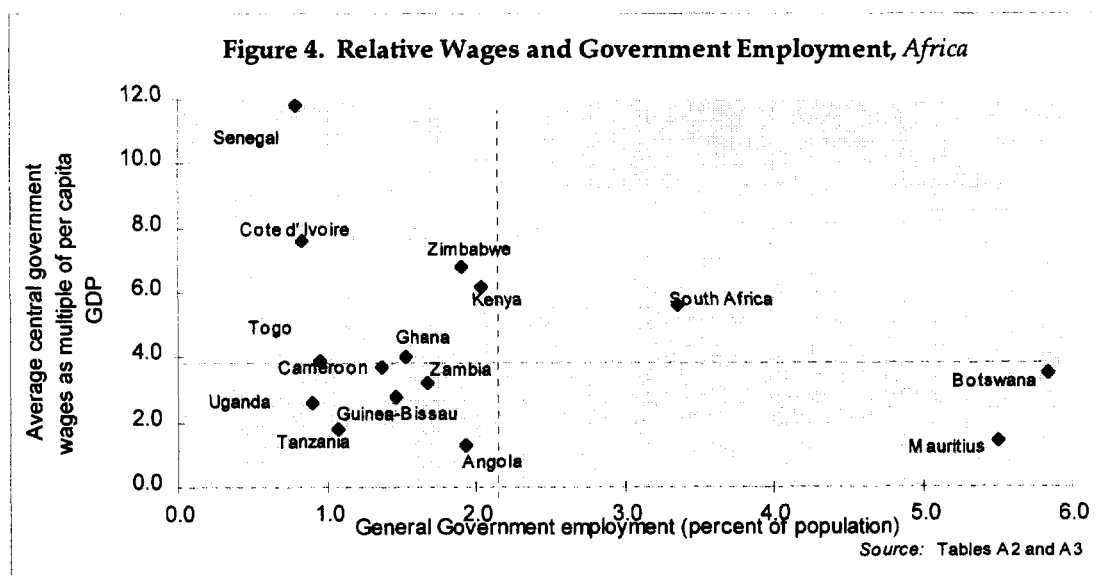
A hopeful recent development is the variety of self-help community initiatives spawned by the degradation of the official civil service, particularly in elementary education, basic health care and local services such as waste disposal. (As noted earlier, official local government employment is very small in Africa.) While these initiatives cannot be a full substitute for a well-functioning government administration, as pointed out by Rogerio Pinto, they are at least a partial exit from the current morass, and offer 'models' from which efforts at improving the official civil service can benefit. In this respect, the *strategic question* is whether greater interaction between central government and local self-help initiatives would improve public service delivery and access, or merely result in suffocating the local activities themselves. The *operational question* is the linkage between local self-help and the activities of foreign and local NGOs; in this context, the emerging partnership between international donor organizations (including the World Bank) and the NGO community, albeit not without its growing pains, can be very constructive.

Another recent development is the launching of "Sector Investment Programs" in many African countries. To the extent that these do not substitute for weaknesses of overall investment programming, and are explicitly in the context of a coherent vision for civil service

reform as a whole, they may help advance the reform process. If instead they are conceived and implemented as isolated sectoral exercises, they carry the serious risk of producing partial results, inconsistent with one another, and to that extent compromise both overall investment efficiency and the chances for systemic civil service reform.

The main *constraint* to genuine improvements in the civil service in Africa is that they are sure to be fiscally expensive, requiring in most countries an increase in real wages more than proportional to whatever retrenchment is still possible, and vast investments in personnel management, retraining and accountability systems. Furthermore, it is difficult to imagine how civil service reform in most African countries can be meaningful without substantial improvements in overall governance – transparency, accountability and the rule of law. And, beyond the inefficiency and interference of civilian employees, there lie the even harder problems of high military expenditures and dysfunctional behavior of military personnel; in too many countries it is a sad reality that the African citizen's greatest threat comes from the African soldier. Thus, *civil service reform – structurally complex, politically problematic, fiscally expensive – is as daunting in Africa as it is essential.*

Figure 4 shows relative central government wages and total government employment as percent of population for each of the 16 African countries in our sample. As noted earlier, there is a reasonably good inverse correlation between wages and central government employment in this region. In addition, the chart is a convenient way to show where each country stands, relative to the other countries of the region, concerning government employment and wage level.



2. Asia

The distinction often made between East Asia and South Asia is in reality a distinction between the newly-industrialized countries and the developing countries of Asia. In the newly-industrialized countries of *East Asia*, the civil service is generally seen as efficient, motivated and professional. Indeed, while governance problems have been directly

responsible for economic decline in Africa, many East Asian countries have experienced remarkable growth (with some equity) under authoritarian regimes. It can be argued that the link between authoritarianism and economic decline, so evident in Africa, has been inoperative in Asian countries largely because of their strong civil service. Greater responsiveness and openness can legitimately be demanded of public administrations in some East Asian countries; the calling to account of the two former Presidents of South Korea is a recent case in point. Clearly, however, civil service systems in most East Asian countries cannot be considered a problem; they are, rather, an important part of the solution to these countries' other problems. Recently, Joseph Stiglitz (Stiglitz, 1996) offered several convincing explanations of rapid growth in East Asia (beyond the customary empiricism of higher saving and investment rates), chiefly, a more equitable income distribution, emphasis on education and (directly relevant to our topic) cooperative relations between the government and the private sector. Stiglitz is certainly right both in his explanations and in his overall conclusion that the remarkable East Asian performance was due to a combination of ingredients, and not to any single factor. Yet, he misses one of the key ingredients: an efficient and competent civil service, with the incentives and professional ethos needed for managing both the government itself and its cooperative relationship with business.

Jayati Datta-Mitra and Migara de Silva have argued (personal communication) that—at least in Korea—it was from private pressure for better service delivery that the public administration became more efficient, and not the other way around. Even if this was the case (the Singapore experience is surely different), the fact remains that the rapid growth path could not have been sustainable in the absence of a robust and efficient civil service, whether or not such civil service was present at the very beginning of the path.

The situation is markedly different in *South Asia*, where civil service reform must rank as a top priority. The core problem is different than in Africa. While in Africa the key problem is a demotivated and de-skilled civil service, in many South Asian countries a highly competent and efficient civil service has coexisted with administrative inefficiency and corruption. The main issue here is probably over-regulation, which is both a cause and an effect of bloated public employment and the single surest route to corruption. Consequently, regulatory simplification and the resulting contraction of public employment, although complex and politically difficult, could raise economic efficiency, reduce corruption and — unlike in Africa — also produce substantial fiscal savings at the same time.

Pervasive political interference is a second major impediment to administrative efficiency in many countries of the region. India is a major case in point (see Box 4). Not only is India's administrative red tape legendary, but the autonomy of its highly qualified civil servants is severely circumscribed in practice (despite the statutory protection from interference in their individual actions), by frequent transfers and other arrangements.

Figure 5 shows relative central government wages and employment as percent of population for the 12 Asian countries of our samples. (No association between the two variables is visible for this region. Nevertheless, the chart is an economical way to summarize the information for each country relative to its region).

Box 4. India: An Elite Civil Service Gasping In The Political Winds

The Indian Administrative Service (IAS), successor to the Indian Civil Service (ICS), the legendary "steel frame" of the British Raj, is today battling onslaughts to its relevance.

The strengths of the Service lie in its extraordinary pool of skills and talents, its field experience, its extensive networking, its appreciation and overview of the functioning of government at the cutting edge, its understanding of delivery systems for development, awareness of the formal and informal socio-economic networks in the field, its "can deliver" attitude, its role in national integration, its ready adaptability to new and unfamiliar situations and tasks, and its social orientation, bolstered by intense competition among the officers.

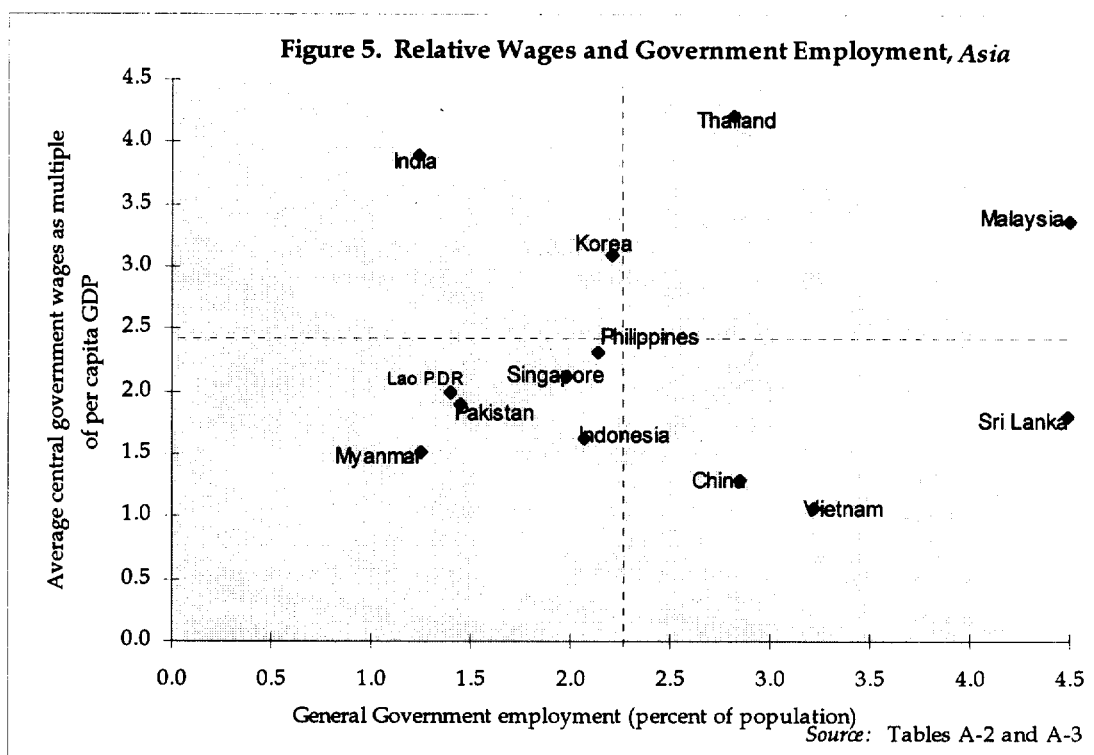
Among its weaknesses are the rancor it has generated among other services at Central and State levels; the increasing rarity of impartial policy advice; political and caste alignments; incompetence and corruption going unpunished, and initiative and integrity unrewarded; frequent transfers and the "transfer industry" in some States (where the average tenure of field officers may be as low as 8 months); and the demoralizing impact of judicial activism, especially "stay orders" which stymie development projects, and contempt cases against individual officers.

While the tiny ICS (never more than 500 at its peak) was an elite service entrusted with the administration of the British Empire in India, the IAS has a much wider and more challenging role as an agent of change. The IAS today is still an elite, numbering about 3,500, of whom one-third are promoted from State civil services and the rest recruited centrally through a rigorous competitive examination process designed to select about 70 recruits annually from about 200,000 applicants. The recruitment process is perhaps one of the toughest and most objective in the world, and the quality of recruits excellent, coming from across the social and educational spectrum (though critics have questioned the social efficacy of a system which encourages skilled surgeons, nuclear scientists and engineers to enter what is, after all, the largest development bureaucracy in the world).

Put through a rigorous 2-year training process encompassing field training with all departments of the government, attachments with the Central and State legislatures, as well as with the judiciary, the armed forces and industries, officers are allocated to different States where they will spend a large part of their career. They have to learn the regional language and the laws of the allocated State. After typically serving as field officers in successively higher capacities for about 7-10 years, culminating with the post of District Officer (a.k.a. District Magistrate/Collector/Deputy Commissioner), officers generally serve alternately with the Center and the State, their intimate knowledge of field conditions in the State enabling them to render expert policy advice to the State and Central governments in successively senior positions. It is doubtful if any other service in the world exposes such young professionals (typically between 26 and 40 years of age) to such a variety of challenges and decision-making opportunities. For instance, as District Magistrates (a district is part of a State and may typically have a population of two to three million and sometimes as much as seven to eight million), they are, in the last resort, responsible for everything in their jurisdiction, from conduct of elections to urban and rural development, public health, school education, industrial promotion, calamity administration, law and order, protocol, prosecutorial and police supervision, land reforms, settlement of industrial disputes, supervision and control of the executive magistracy, jails and welfare, Treasury management, issuing of arms licenses and so on.

In the States, almost all Secretaries to Government (i.e., the permanent civil service heads of department) are from the IAS. At the Center, about 70% of Secretaries are from the IAS. Other Services are naturally bitter about this state of affairs and complain that "Nothing grows in the shade of the Banyan tree". Over-recruitment to the IAS and other services in the 1970s and 1980s resulted in massive cadre congestion, unnecessary creation of posts to accommodate officers, and frustration among officers, compounded by a fall in living standards, both relative to the private sector and in real terms. Now, intake is sharply reduced, and almost 50% of seats are reserved for Scheduled Castes, Scheduled Tribes and Other Backward Classes (SC/ST/OBC). IAS officers, after retirement, often become ambassadors or Governors, or enter politics and become influential legislators or Ministers.

Notwithstanding such vicissitudes, the IAS today is at the leading edge of change in the country, ushering in reforms in different sectors. The questions are: Does it have the vision to reform itself into a more efficient, more transparent and leaner agent of change? Will it be given the political and administrative space to do so?



3. Eastern Europe and the former USSR

As noted earlier, a distinction must be made between Eastern European countries and the Baltics, and the countries of the Commonwealth of Independent States (CIS). The challenge of economic transformation – and hence a fundamental reorientation of administration structures – is common to all transitional economies of Europe and Central Asia. But the CIS countries (except Russia) face the gigantic – and historically unique – *double* challenge of economic transformation *and* state-building: they have not had a central government in living memory nor, in fact, did they constitute for centuries (most never) an independent political entity within their present boundaries. It is not surprising, therefore, that administrative improvements have been more noticeable in Eastern Europe – especially in countries such as Hungary, Poland and the Czech Republic. (Indeed, the Czech Republic now offers many examples of administrative "best practice". In particular, the sustainability of its economic reforms and of its administrative institutions and structures owes much to the early recognition (largely to be credited to President Vaclav Havel) of the need to clarify and respect property rights and not trample on them for the sake of quick but ephemeral reform "successes".) Certainly, the job of reorienting the state toward a role of "steering, not rowing", is far from complete in Eastern Europe and progress is much less significant in Southeastern Europe. But in most countries progress has been made and the process of administrative reform is under way.

Not so in the CIS, where the process of reorienting the state toward the role of "steering, not rowing" is still at an early stage, low state capability is a serious and mounting obstacle to progress on economic and social areas, and a host of severe problems has emerged from general lack of accountability and transparency. A first fundamental problem is the weak accountability of the executive to the legislature. In the very early 1990s, parliaments in most of the new countries were the only repository of whatever political legitimacy existed after the collapse of the USSR. There were even instances of excessive interference by the legislature into routine executive functions (which remains a problem in Ukraine). However, political changes since then have produced a situation in most countries characterized by a dominant executive and weak legislative oversight. The extremely complex, opaque and fragmented organization of government, too, needs substantial simplification and consolidation. And the weaknesses and inefficiency of the judicial systems compound severely the problems from lack of public administration capacity.

Except for improving somewhat civil service autonomy, genuine administrative reform in most of the FSU is conspicuous for its absence. The central government workforce is typically very small, without the skills needed for administration in a non-command economy (albeit highly educated and technically knowledgeable), unaccustomed to personal initiative, deprived of basic supplies and resources and very badly paid. (Georgia is an extreme example – see Box 5.)

Box 5. Extreme Government Wage Inadequacy in Georgia

Among the more extreme illustrations of inadequate government wages is the former Soviet republic of Georgia. A government accountant there receives monthly compensation of less than six million 'coupons' (equivalent to about five dollars). The same accountant working in a state enterprise would receive, including bonuses and in-kind supplements, about 60 million coupons (about \$50). And if the accountant worked in a privatized enterprise, the compensation package would be close to 100 million per month (70 million in salary and another 30 million in allowances), almost *twenty times* the salary for the same skill in government employment, and sufficient for a very modest living.

With subsistence income estimated in Georgia at about \$60 per month for a family of four, it is evident that government employees must find alternative sources of income if they are to survive. With both parents working, average government jobs would give the family a monthly total salary barely sufficient to subsist for one week. The total salary would be below family subsistence level even if each parent received the basic salary of the Prime Minister.

The intractability of the problem, in Georgia, is shown by the fact that, in order to raise government salaries to bare subsistence (not even competitive) levels, the fiscal constraint would require cutting the civilian government workforce from over 400,000 to about 12,000 employees. This situation is extreme even by FSU standards – and is largely associated with the fact that the collapse of domestic revenues in Georgia has been even larger than elsewhere in the FSU. However, to a less extreme extent much the same picture of severe inadequacy and uncompetitiveness is shown by the government wage structures and levels in the other countries of the region. Furthermore, in many countries where official government wages are less inadequate, wage arrears are common, and are a major source of social tension and personnel demotivation.

It is unsurprising that in the first stage of the economic transformation policy, attention and financial resources were devoted to the urgent tasks of privatization, reforming the price and exchange system, and establishing some measure of fiscal and monetary control. But it is equally unsurprising that the next stage of the transformation—those reforms requiring "affirmative administrative action"—is now severely hampered by the absence of the mechanisms, government personnel and resources necessary to implement them. As the Ukraine example shows (see Box 6), the current state of government organization and of the civil service in most of the former Soviet republics is a serious and mounting obstacle to further progress in most economic and social policy areas.

Box 6. Ukraine: Building a New Central Government Administration

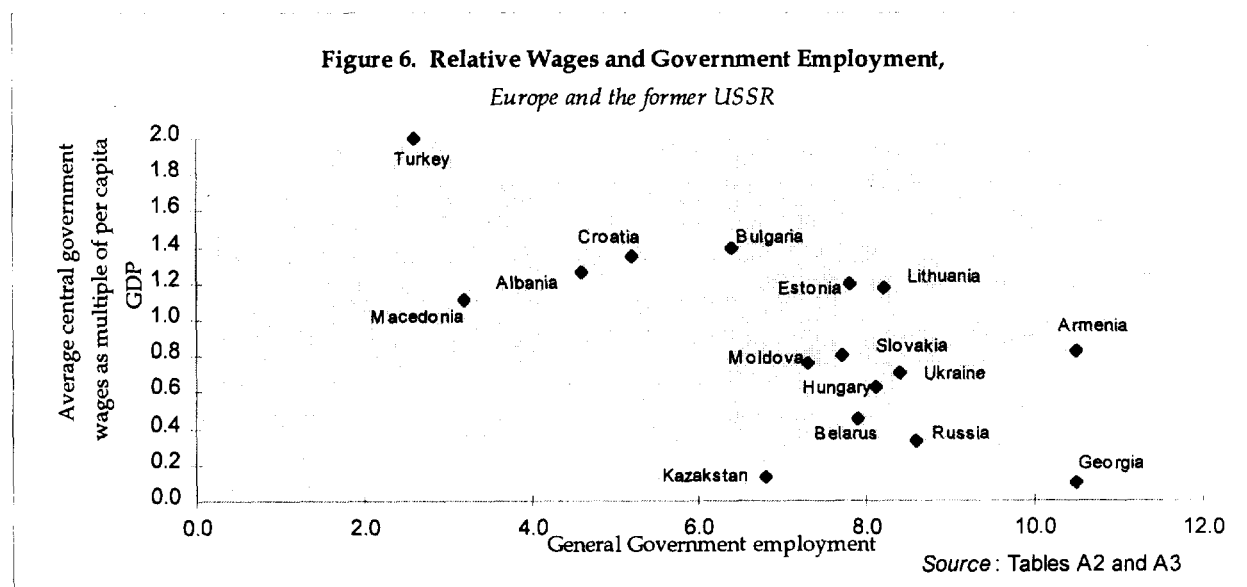
In Ukraine, as in all former Soviet republics (except Russia), creation of a new national administration from a former provincial government has been difficult, and is still embryonic. The delay in introducing a post-communist Constitution has held back the formation of an effective public administration. Currently, there are 73 central bodies of executive power—two or three times the number of ministries in Western countries. But the departments and ministries are very small compared to OECD norms, with an average of only 230 staff each. Much larger workforces than exist at present in Ukraine would be required to undertake the range of functions carried out by most government ministries and departments in the West. The total civilian government workforce is estimated at around 400,000 (including police), of whom 170,000 are in local government and 230,000 in central government (including local personnel paid from the central budget). Thus, at less than one percent of the population, total civilian government employment in Ukraine is far smaller than the norm in most developing or developed countries. (Public sector employment, of course, is much larger, as it includes the vast numbers of employees in public enterprises.) Moreover, of the 230,000 central government employees, just 15,000 are on the headquarters' staff of ministries and administrative departments.

Despite the small workforce, productivity levels are low and there are areas of redundancy and under-employment throughout the central civil service. As in other transition economies, Ukraine has seen a dramatic deterioration in civil service salaries, both in real terms and relatively to other sectors. Senior civil servants have been the worst affected and would require a 60% increase in salaries just to restore their real incomes to the already-depressed 1992 levels. The low salaries have led to increasing vacancy rates (currently about 15 to 20%), demotivation, indiscipline, spread of secondary occupations and difficulty in attracting young professional staff. The opportunities for training are also extremely limited.

Civil service reform is urgent in Ukraine, and goes much deeper than the numbers, deployment and average pay levels of civil servants. There should be an explicit policy on the structure of civil service remuneration, strong central personnel management capacity and good information systems. Measures to retain and attract professional skills, and to train selectively senior managers, will be critical. Priority should be given to identify training needs, design training programs in results-oriented management and other skills for current and future managers and to establish a network of training centers to meet these needs. An action plan is required to implement the rules of conduct of civil servants, their recruitment, duties and privileges, career development, staff appraisal, promotion, posting, grading and remuneration, discipline, welfare, dismissal and retirement. All these require high-level and consistent political support, careful design and substantial financial and technical resources.

One problem common to all transitional economies is how to combine the considerable reservoir of technical knowledge of 'old' government employees while bringing in enough 'new blood' to give the central civil service vitality and credibility. The problem is complicated by the widespread popular resentment against civil servants, who are seen as guardians of the old order; this factor, of course, also means that necessary retrenchment measures are not likely to carry net political costs. However, it is not easy to bridge the transition from a badly underpaid government workforce with its inappropriate skill profile to a higher-skilled civil service – perform adequately compensated. (Several practical possibilities have been explored in various countries, and are discussed in Chapter III.)

Figure 6 shows relative central government wages and total government employment as percent of population in Eastern Europe and the former Soviet Union. The difference between the two sub-regions is evident, with Eastern Europe showing both higher wages and lower employment. (Recall that most of central government in countries of the former USSR is accounted for by education and health, with central government administration at a modest size.) For neither sub-region, however, is there any statistically-significant association between wages and central government employment.



4. Latin America and Caribbean

In Latin America and the Caribbean, the central civil service in many countries still suffers from inefficiency, wastage, corruption and weak capacity to provide public services. However, an extensive devolution of financial and administrative power to local governments has occurred in the last decade. The diffusion of administrative responsibilities (and authority) away from the center has had far-reaching implications for the civil service. Particularly remarkable has been the shift in responsibility in the education and health fields. Teachers and health personnel in the central government account for just 0.1% of population, because most of them have been shifted to local government (as in Argentina – see Box 7).

Civil servants, too, appear to be adequately remunerated, with average central government wages over two and a half times per capita GDP. In smaller countries of the region, however, reforms have sometimes bypassed the main body of administration and created an enclave of better-paid, more skilled, personnel—usually siphoned off into donor-assisted projects. (See, for example, the experience of Bolivia, summarized later in Box 13.)

Box 7. Argentina: Downsizing and Reforming the Central Government

During 1970s and 1980s, government employment rose continuously, reaching 1.9 million by 1989. At the same time, revenue dropped and the fiscal deficit grew. The salary structure was compressed dramatically from a compression ratio of 10:1 in the 1970s to 4:1 by 1989. By that year, the situation warranted immediate reforms in personnel and pay policies. Accordingly, the Laws for Administrative Reform and Economic Emergency were passed, providing for the necessary legislative framework. Two measures were taken to reduce personnel levels: (i) a program of voluntary retirement which resulted in retiring about 10,000 public employees; and (ii) adoption of a vacancy freeze, which had a great impact: the government workforce has not grown since the measure was taken.

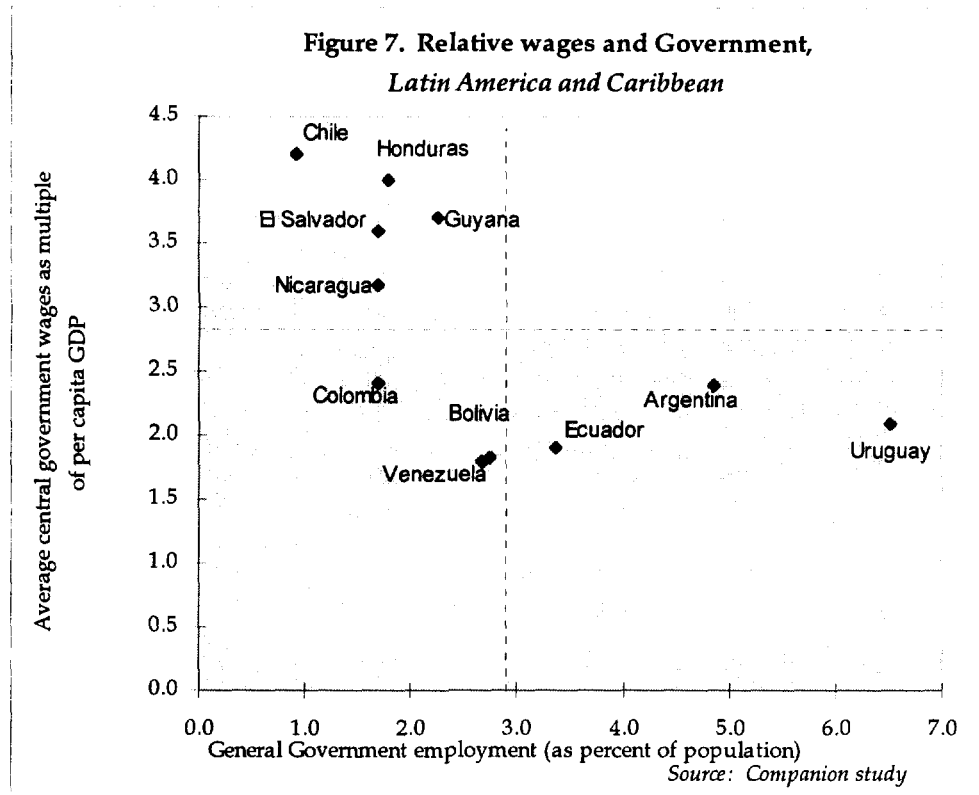
In 1990, President Menem initiated the state reform plan which included several measures. The first was privatization of all state enterprises, through which 180,000 employees in public enterprises went to the private sector between 1990 and 1992. The second was decentralization of the health and education system, which enabled transfer of both personnel and resources to the provincial jurisdictions. An estimated 170,000 personnel were transferred. The third set of measures included other cutbacks in the central administration; elimination of organizations; cutbacks on political costs; limits on temporary positions; early/voluntary retirement; and redesign of administrative structures. These measures cut in half central government personnel. The major issues for the future will be to ensure that local governments deliver social services in an efficient way and are accountable for the use of the financial and personnel resources transferred to them.

In February 1996, a law was approved for the Second Reform of the State. The law gives authority to the Executive to eliminate or reorganize existing institutions (except for financial institutions, universities and regulatory entities), to eliminate positions, and reduce the number of public employees—including the military. A Fund is created to finance severance pay and training on a temporary basis. The objective is to improve public services and reduce public expenditure. The office of the Chief of the Cabinet of Ministers is in charge of implementing the Second Reform of the State.

It is plausible that the devolution of administrative responsibility (combined with largely democratic processes at local levels) has been a major factor in the remarkable improvements in representative governance throughout the region in the last 10-15 years. However, there is also a highly respected minority view (exemplified by Riordan Roett) that—while the facts of personnel and resource decentralization are real, the impact on efficiency and government is illusory. This is because, in that view, power and responsibility have been devolved to the local “branches” of the same national elites. Thus, while the influence of the elites may now be articulated in a different geographic pattern, genuine devolution of power has not occurred, and neither social service nor governance have in fact been improved on the ground. It is difficult to be certain. Clearly, large inter-country differences exist in the region, and equally large differences between the center and the periphery in individual countries. One may nevertheless still conclude that the decentralization and devolution trend remains the

single best hope of improving the quality of, and widening the access to, social services, and strengthening whatever hopeful beginnings have been made in this direction.

Figure 7 shows relative central government wages and total government employment as percent of population for a sample of countries in the region. As in sub-Saharan Africa, an inverse association between wages and employment is evident, with one-fifth the total variance in wages explained by differences in employment.



5. Middle East and North Africa

In MENA, large civil services were built up in the 1960s and 1970s to execute the vast economic responsibilities assigned to the state in those years (and to provide employment to college graduates), and were not slimmed down in proportion to the contraction of the role of government in more recent times. With a few exceptions (e.g., Tunisia), the civil service in MENA countries shares some negative characteristics of both Africa and South Asia. As in Africa, there are skill problems and inadequate public service delivery; as in South Asia, over-regulation has produced both a bloated workforce and pervasive interference in private economic activity. Little policy effort has been devoted to streamlining the government workforce and improving its efficiency. Recently, with the end of the Cold War, the conclusion of the Gulf War and the change in attitudes brought about by the Arab-Israeli peace process, governments in the region are beginning to turn their attention to the issue. A major explanation for inaction so far is that by far the single greatest economic and social problem in the region (except for Saudi Arabia and the Gulf States) is unemployment—largely related to high population growth. This makes government downsizing especially difficult. In addition,

the very low political turnover in most MENA countries – whatever its advantages might be argued to be in terms of political stability – has atrophied the system's capacity to change.

The challenge of civil service reform is further complicated in this region by difficult issues of national unity and governance, and is intertwined with the debate on the appropriate interaction between religion and society. In their most acute form, these issues were at the root of the 15-year civil war in Lebanon (see Box 8). And yet, even under the extreme circumstances of Lebanon, the re-establishment of peace has made possible the beginning of civil service rebuilding, based on a consensus to insulate a professional civil service (except at its top levels, of course) from religious considerations. Furthermore, as in South Asia, civil service reform in MENA would likely produce substantial fiscal savings. Thus, while the risks of genuine civil service reform in the region are comparatively higher than elsewhere, so would be its economic and social payoff.

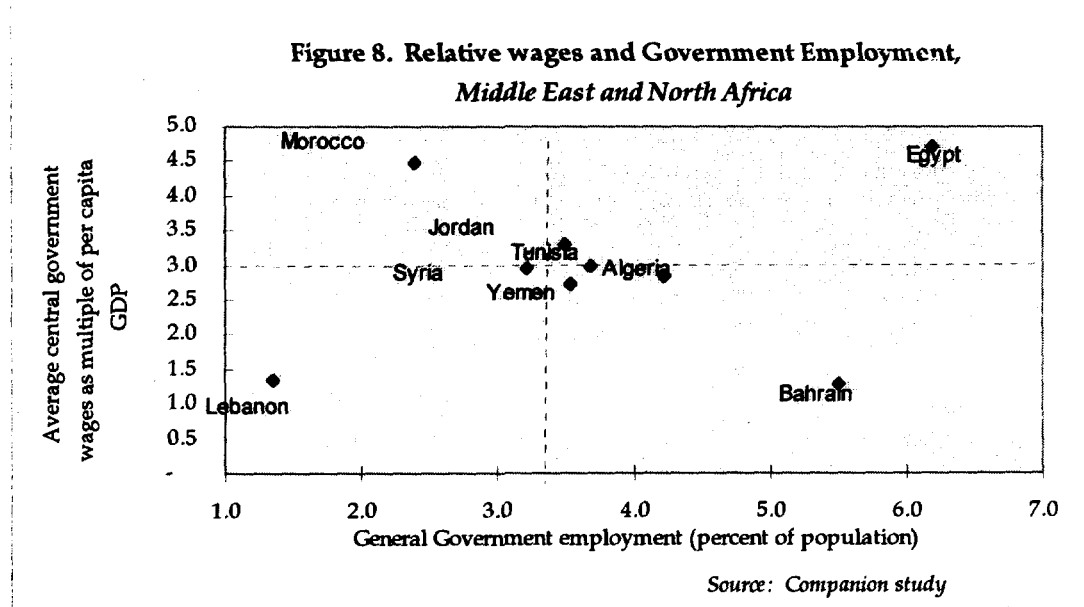
Box 8. Lebanon: Reconstructing the Civil Service in the Midst of Religious Pluralism

Lebanon, in the early 1970s a middle-income country with a reasonably well-functioning public administration and a vibrant private sector-led economy, was devastated by 15 years of civil war. About 200,000 professional and skilled workers emigrated, resulting in severe skill shortages throughout the economy. The damage to public administration was as severe as the damage to the buildings of downtown Beirut. After the war, ministries and public agencies are operating with skeleton staff (only 7,400 of the 21,000 civil service posts are filled), since the distorted and inadequate compensation package does not attract qualified professionals. At the same time, there is an excessive number of unqualified daily workers. The average age of civil servants is 54, and they have been isolated for a long period from the evolution of international practices in their field of activity. The basic procedures of public administration, established 35 years ago or longer, are over-centralized and outmoded.

The Minister of State for Administrative Reform is entrusted with the responsibility of coordinating the rebuilding of the civil service and the public administration. The key strategic choice has been to 'renovate' and not only to 'reconstruct', i.e., not to reproduce the pre-war administrative structures but to take the opportunity to leapfrog to more efficient contemporary practices and methods. Four inter-ministerial committees have been created to examine the salary scale, compensation, job classification and organizational structure of specific ministries. A National Administrative Rehabilitation Program has been formulated, and is being implemented partly with World Bank assistance, to rebuild the physical administrative structures, re-equip them with basic equipment and supplies, introduce simple but contemporary information technology and systems, and provide selective training and advisory services to ministries. The Program is seen in the context of a profound reform of the civil service and the public administration. The government policy intentions concerning the civil service are to: carry out a civil service census to identify and remove ghost workers; conduct a series of "Best Practice" workshops to expose participants to international experiences, provide a forum for open internal discussion and facilitate the process of reform; reduce the number of permanent civil service posts by 25%; reduce the number of daily and contractual workers to no more than 10% of total permanent positions; introduce a salary scale competitive with private salaries; introduce a standardized performance evaluation system, including upward feedback; and complete a major review of all civil service regulations on recruitment, retention, evaluation, promotion, mobility, retirement and discipline to achieve a major simplification and streamlining of procedures and processes. By the end of the reform process, Lebanon hopes to achieve a small, efficient, well-equipped and motivated civil service, to support and complement a private sector-led recovery of the economy.

In this sense, and as a very broad generalization, the challenge of civil service reform in the Arab world is in a way intermediate between the African and the South Asian predicaments. As in Africa, structural reforms in the civil service are needed and the governance implications are substantial; as in South Asia, such reforms would produce fiscal savings and improve efficiency. The political difficulties of genuine reform, however, are probably greater in MENA than in any other region; a promising approach could be, with all due caution, to follow in the decentralization steps shown by Latin America. In any event, the first step in most MENA countries must be to prevent any further growth in central government employment.

Figure 8 shows relative central government wages and total government employment as percent of population for a sample of MENA countries. As for ECA and Asia, there is no evidence of any wage-employment association. But, again, the chart is a convenient way to summarize the placement of each country relative to the others of the same region.

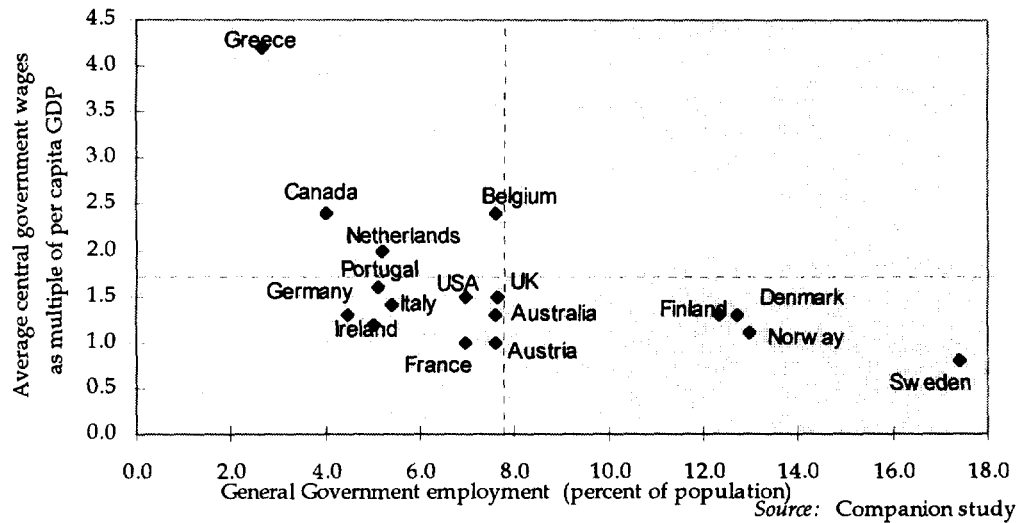


6. OECD Countries

A discussion of civil service issues in OECD countries is outside the scope of this paper. For the sake of completeness, however, Figure 9 below shows relative central government wages and government employment as percent of population for all OECD countries. There one does find a statistically significant inverse association—albeit a marginal one. Country-specific time-series analyses would be necessary to establish the relationship between wages and employment in the central government.

Let us conclude this section with an illustration of one of our key points: how misleading these data can be if taken in isolation and at face value. Thus, Sweden has the largest government employment and the lowest relative wages of all OECD countries; Italy is close to the mean in both respects. Could one conclude from these facts that the Swedish civil service is “bloated”, “underpaid” and “demotivated”, by comparison to the Italian “model”?

**Figure 9. Relative Wages and Government Employment,
OECD Countries**



II. CIVIL SERVICE REFORM: POLICY AND IMPLEMENTATION

A. AN ANALYTICAL FRAMEWORK?

By contrast to the well-established basis for decisions on macroeconomic policy and on the vast literature on economic growth, civil service issues and public administration in general appear to suffer from lack of an analytical framework. It is indeed true that much analysis and policy practice has been *ad hoc*. It need not be, however: elements of an analytical framework are rarely used, but do exist. This paper is not the place for an extended discussion. However, it is useful to note some of the key building blocks even if telegraphically, and at the cost of creating a discontinuity between this first section and the remainder of the paper..

First, the emphasis of public choice theory on the risk of capture of the regulators by the regulated, on improving contestability and introducing clear contractual arrangements within the public sector, is well-placed and has significant implications for the size and skills of the government workforce.

Second, the New Institutional Economics, with its emphasis on costly information and transaction costs, provides a sound conceptual foundation for looking at civil service issues (among other things).¹ Briefly, the key considerations are as follows:

- because information is not cost-less, transaction costs are a major determinant of economic activity, competitiveness and growth; in turn,
- transaction costs are affected by the effectiveness of the prevailing institutions;
- "institutions" are not organizations: institutions are the laws, the procedures, the rules, the customs (formal and informal) within which organizations must operate; nevertheless,
- it is the interaction of institutions and organizations which is key to "institutional development" – i.e., a move to a more efficient set of rules, hence to lower transaction costs and, *ceteris paribus*, higher levels of economic activity;
- it is evident that the effectiveness of organizations, and their interaction with the regulatory framework, depends fundamentally on the people of those organizations (in the case of public administration, the civil service); and consequently,
- the benefits of civil service reforms can be understood, analyzed, and often even measured in terms of their contribution to a move to more efficient institutions and the ensuing reduction in transaction costs within the public sector and throughout the economy.

¹ The founding fathers of the New Institutional Economics are Ronald H. Coase, winner of the 1991 Nobel Prize for Economics (see Coase, 1989, for a collection of his most important essays), and Armen A. Alchian (Alchian, 1977, contains some of his best papers). Major contributions have been made, among others, by Douglass North (e.g., North, 1989) and Oliver Williamson (e.g., Williamson, 1985). An excellent summary of the New Institutional Economics by Thrain Eggertsson is found in Schiavo-Campo, 1994.

Third, some of the ideas of what Paul Krugman calls the High Development Economics of the 1950s and early 1960s can provide powerful analytical guidance to administrative reform. Let us take an example. Albert Hirschman's 'unbalanced growth' paradigm of almost forty years ago (Hirschman, 1958) identifies the 'ability to invest' as the scarcest production factor in developing countries. The reality of production linkages thus combines with the scarcity of ability to counsel concentrating public investment in sectors with maximum linkages to the rest of the economy — thus *facilitating* the next investment decisions. By analogy, in civil service development, we can argue that the operative constraint is found in the developing countries' limited "capacity to reform". The reality of costly information and skill problems thus combines with the limited capacity to reform to counsel improving those civil service functions which are key to facilitating subsequent administrative improvements. Naturally, the identification of these key functions and the tactics of constructive intervention within a coherent overall reform vision are extremely difficult propositions, as we shall see in Chapter III. But some strategic guidance for civil service reform exists.

It is also abundantly clear, from Douglass North's concepts of "path dependence" as well as from actual reform experience, that civil service reform entails changing both formal and informal rules, customs and habits, and is therefore by its very nature a complex and protracted affair.

B. FRAMING THE ISSUE: THE MEANING OF CIVIL SERVICE REFORM

Civil service reform is sometimes misunderstood as limited to personnel retrenchment and real wage reduction, for fiscal policy objectives. In practice, this *has* often been the case, which explains much of the suspicion of "civil service reform" in developing countries. However, while this cost-containment dimension is important in many countries, civil service reform is much broader, and should be seen within the general context of public administration and governance practices. The goal of civil service reform is a government work force with the size, skill-mix, motivation, professional ethos and accountability needed to: provide quality public services; reduce transactions costs for the private sector; design and implement economic policy; and execute budgets and investment projects. Thus, unlike firing people and cutting salaries, the structural reforms carry potential social and political gains, in addition to the economic ones. Of course, they are also far more complex and of long gestation, partly from the need to develop a professional ethos, which is as important as technical competence and accountability mechanisms.

The overall approach to CSR parallels the one appropriate for institutional development in general. Rules must be improved and their fair enforcement assured, if organizational changes and training programs are to be useful; change must be *managed*, with the systematic involvement of all concerned parties; credible two-way information channels must be opened; any reform program must provide a *role for hope*, maximize the number of potential allies and reduce opposition, etc.

Civil service reform measures can be classified in the three categories of "diagnostic", "cost-containment" and "structural" measures. Cost containment includes mainly retrenchment of groups of employees or reductions in force from a reorganization of government administration. (Reductions in government employment from contracting-out of

social services are properly structural measures, and are not, or should not be, motivated by fiscal saving per se.) Diagnostic measures include civil service censuses, functional reviews, institutional assessments, data collection, compendia of regulations etc. (Diagnostic activities also serve as non-confrontational devices to initiate the reform process.) Structural measures touch on the incentive framework, the system of civil service regulations, personnel management, training, and accountability systems.

Diagnostic measures are discussed in Chapter III. We examine below the question of retrenchment and the most important among the structural reforms: the incentive framework and the issue of accountability.

C. "RIGHTSIZING" AND RETRENCHMENT OPTIONS

1. General considerations

Overstaffing is a relative notion. That central government employment may be comparatively high in a particular country is a useful 'flag' for analysis, but proves nothing in and of itself. The role of the government may be larger in that country. (The appropriate debate in this case is on the large role of government, not on its corollary of a large work force.) Or, the degree of government centralization may differ. (The appropriate debate in this case is on subsidiarity, the vertical devolution of government responsibilities, and not on the size of the civil service per se.) Among industrial countries, for example, while the French is among the largest of central civil services (at about 2.7% of population) and the British among the smallest (at 1.3%), total government employment accounts for around 7% of the population in both France and the U.K. Thus, a relatively large work-force can be understaffed if its size and skills are not commensurate with the responsibilities assigned to it by the population. Conversely, even a very small civil service can be 'overstaffed', if because of skill-mix or weak accountability mechanisms the same level and quality of public services could be provided with fewer employees. The civil service regulatory framework is also relevant for assessing overstaffing: in particular, reducing the obstacles to mobility within the civil service may permit a smaller workforce without affecting service delivery, and/or improve services.

Consequently, an assessment of the "right size" of government employment must be country-specific, and requires consideration, among other things, of: the functions assigned to the state in that country; the choice of degree of administrative centralization; the skill profile of the civil service; and the regulations and constraints to mobility. (What is certain is that any new recruitment should follow specific, documented public needs; a policy of automatic government hiring of new college graduates has proven everywhere to be a recipe for eventual fiscal and administrative problems.)

2. Design and implementation issues

When overstaffing is found, retrenchment (if done right—see Box 9) can provide the wherewithal to improve incentives and/or produce net fiscal savings. In addition, it can raise morale (by "revaluing" public service) and stimulate performance of the remaining employees. Nothing demoralizes a person faster than to work next to a less qualified, under-performing and uncommitted individual with the same rank and nominal responsibilities. Nevertheless,

overemphasis on retrenchment (or knee-jerk recommendations to reduce the workforce by some arbitrary number without analytical and empirical justification) gives civil service reform a bad name and maximizes resistance even to positive-sum reforms. Moreover, retrenchment is almost always financially costly in the short term.

It is often politically costly as well, particularly when unemployment is already high. However, political costs are not inevitable. (Often, as Frederick Malek put it, “the best politics is good government”.) First, there are circumstances when the support of the public at large for retrenchment measures offsets the loss of support from those directly involved—as in many Eastern European and FSU countries. Second, well-managed change, for good reason and with appropriate explanations, candor and equity of action, helps defuse political opposition.

Retrenchment can be very counterproductive when it’s not done right:

- the immediate risk is skill reduction—if the program inadvertently encourages the best people to leave. Voluntary severance and early retirement can be especially problematic in this respect. The difficulty is that it is just these measures which are administratively and humanly easiest to carry out, and are on the rise also because of their appeal to civil servants themselves;
- the near-term risk is the recurrence of overstaffing—if personnel management, information and control systems are not strengthened before or at the same time as retrenchment occurs —and loss of credibility of the reform process;
- the broader risks are demoralization of employees, lower service quality and credibility loss—if the retrenchment program is perceived as arbitrary and opaque, particularly in societies ridden with ethnic, clan or religious conflict.

The general conclusion is not that retrenchment measures can be avoided. In many countries, downsizing is virtually mandated by fiscal needs; in others, it is a necessary component of structural reform. But retrenchment should be approached as part of an improvement in the efficiency and quality of government functions. Retrenchment is a means, not an end in itself; the end is the efficient provision of public services. In any event, experience shows that *retrenchment must be designed with great care and respect for the ‘law of unintended consequences’*, and implemented as transparently as possible and with ironclad observance of clear and specific criteria determined in advance. It is impossible to overstate the importance of candid and open communications. Cooperation by the media is therefore important.

Box 9. Rightsizing: Some Lessons from Experience

While there is need for better information on the nature of the labor market adjustment across countries, some recent studies on employment restructuring offer the following lessons:

- earnings losses are not an adequate measure of welfare losses, particularly for workers who may withdraw from the labor force after separation (for such workers, a better predictor of the welfare loss from displacement is the gap between the wage in the public sector and the reservation wage);
- the rules-of-thumb typically used to set compensation packages, which involve some multiple of the public sector wage, may be grossly misleading, since they ignore other individual characteristics that may be related to the welfare loss, such as schooling or the number of dependents;
- the gains from better-tailored severance pay may be significant, and the magnitude of the estimated savings, in turn, suggests that there is a case for carefully preparing downsizing operations: a study shows that even over-estimation of the gains from better-tailored compensation would have led to savings of an order far exceeding the cost of a study using micro-economic data to determine which workers are actually redundant, and how much they should receive as compensation;
- younger workers with high state tenure are more likely to leave;
- state leavers appear to suffer much higher levels of unemployment than the average for their area;
- those at risk of unemployment are particularly younger women, and older males;
- younger men with lower severance payments are more likely to be employed and higher severance payments appear to be used mainly for self-employment and retirement;
- programs that use targeting on the basis of skills and age, use multiple methods of employment reduction, and use a combination of compensation packages that include enhancements of the safety net for assisting the reallocation of workers are much less likely to exhibit problems with re-hiring; while programs with this multi-dimensional approach tend to be expensive, there are potentially large payoffs in productivity gains and reducing adjustment costs;
- seniority-weighted severance packages are likely to lead to the loss of younger, higher-tenure, more educated, and more able workers;
- income supports or retraining may be especially important for young women, and provision of start-up capital for self-employment may reduce the unemployment of older males and females;
- it is possible to achieve a targeted number of employment reductions, without unnecessary cost, by modulating the *level* of severance payments; and
- more analysis is needed to so design the *structure* of severance payments as to induce the desired distributions of workers leaving and staying.

Sources: Rama and Macisaac (1996), Robbins (1996), Haltiwanger and Singh (1996).

D. WAGES AND INCENTIVES POLICY

1. General considerations

The fiscal benefit of wage containment is obvious, but must not be allowed to drive wage policy. Certainly, in cases when public wages are too high relative to private wages,

cutting them improves resource allocation and equity as well. However, developing countries typically have today barely competitive or inadequate public wages. In these cases, reductions in real wages set in motion a vicious circle of demotivation, under-performance, and justification for further reductions. (The reverse can be true as well: wage improvements, even if insufficient, can set in motion a positive dynamic: as Benjamin Higgins has noted, what is important in vicious circles is the circularity of the process—and not its ‘viciousness’.)

The bottom of this spiral is all too well known: a de-skilled labor force, too poorly paid to resist temptation, utterly cowed when faced with pressures from politicians and influential private interests, and unable to perform in minimally adequate ways. And because everyone is aware of the compensation problem and petty corruption is rife, society loses its legitimate claim to honest and efficient performance by its public servants. Beyond the direct deterioration of public goods and services, the result is a worsening economic climate for the private sector and an increase in transaction costs—the exact economic equivalent of technological retrogression. The general conclusion is *to resist the temptation to fix fiscal problems by distorting incentives*: even a badly-designed retrenchment program is better than severing the link between salaries and opportunity cost.

2. The design of civil service compensation

It is important to realize that much civil service reform, and particularly pay reform, has typically taken place under conditions of fiscal crisis and a diminishing capacity of government to perform its tasks efficiently and effectively. (Indeed, there are very few instances where civil service reforms were introduced in the absence of fiscal pressure, to improve public services and civil service performance.) Government responses to crisis have tended to avoid retrenchment by eroding real government pay, compress salary structures and reduce expenditure on complementary inputs. Consequently, *rehabilitation of government performance will require policies that eliminate redundancy and restore the linkages between compensation and effort*. Since redundant civil servants, by definition, have a marginal product of zero, eliminating genuine redundancy potentially improves government performance and stimulates public service production. A prerequisite, of course, is the accurate prior identification, and retention, of personnel with skills well adapted to their jobs—which is far easier said than done.

The nexus between compensation and performance is complex, but the consequences of wage erosion are visible everywhere —increased turnover rates and absenteeism, moonlighting and sunlighting, difficulty in recruitment and retention, rise in petty corruption, etc. In the oft-quoted passage on the Ugandan situation of the 1980s: “...The civil servant had either to survive by lowering his standard of ethics, performance and dutifulness or remain upright and perish. He chose to survive” (1982 Ugandan “Report of the Public Commission,” cited in Lindauer and Nunberg, 1994, p.27). Complicating the situation is the typical lack of a systematic base for civil service pay comparability with the private sector and the public enterprises—leading civil servants to believe they are more underpaid than is in fact the case and the public at large to have the opposite misconception.

The classic problem in civil service compensation is how to value the labor that produces the output of civil servants, given that such output is generally not marketable. The general solution is to make compensation comparable (not equal) to that for equivalent skills which are marketed, i.e. private sector pay.

a. *The context: Factors influencing civil service compensation*

Civil service compensation operates in practice within the broad framework of public sector compensation, legislative oversight and judicial review of administrative/executive action. It is therefore informed by public policy considerations in the shape of constitutional provisions, legislative enactments (whether federal/central or state) and executive rules and regulations, tempered and interpreted by judicial pronouncements and reviews. Some of the common public policies impacting civil service compensation are:

- Collective bargaining policies;
- Minimum wage laws;
- Prevailing wage laws;
- Minimum benefits laws;
- Maximum pay policies;
- Incomes policies;
- Equal pay and anti-discrimination statutes;
- Pay comparability laws;
- Competitive pay policies;
- Comparable worth policies;
- Merit pay policies;
- Cost-of-living adjustments;
- Pay-for-performance policies;
- Gain-sharing policies;
- Service benchmarking.

b. *The objectives of compensation policy*

Although in practice there are severe problems in meeting and implementing the different objectives of compensation policy, the objectives themselves are simple and intuitively reasonable.

Objective 1: Equal pay should be given for equal work performed under the same conditions.

Empirical evidence shows that this is not always so. First, strong unions have sometimes succeeded in winning for their members higher pay than others similarly skilled but less able to negotiate a better deal. Second, the divergence may be due to special or peculiar conditions, such as a merit system, measurement of earnings by quantity or quality of production, and differences in location of work. Third, as discussed later, cross-country data show that female employees tend to be paid less than their male counterparts. Finally, personal and political patronage in countries with governance problems results in, among other things, endemic violations of the basic principle of equal pay for equal work.

Objective 2 : Differences in pay should be based on differences in work performed, responsibilities assigned, and qualifications required.

Graded classification systems (see below) are better able to achieve this objective, particularly since they make pay differences *proportional* to work differences.

Objective 3 : Levels of government pay should be comparable to those in the private sector.

Compensation plan design must take account of this external aspect of comparability, or "fair comparison" (in addition to the internal aspect catered to by classification systems). Note that "comparable" does not mean equal. In cases where public service demands higher qualifications and prior education investment, it might be justified for government wages to be higher than their private equivalent. In the more typical cases, the greater job security and (sometimes) greater prestige of public services justifies a somewhat lower compensation package. (As we have seen earlier, in practice the "discount" on government work is generally between 20-30%—see Table 2.)

One of the most sophisticated efforts at establishing rates of civil service pay by levels of remuneration outside has been that conducted by Britain's Civil Service Pay Research Unit. Using the "fair comparison" norm, the unit conducted regular pay surveys to establish rates of pay in each "main grade" in the civil service. Linked to these main grades or "key rates" are a large number of grades ("consequentials") containing smaller numbers of employees, so that over the cycle of pay surveys, the rates of all non-industrial civil servants are automatically adjusted. These exercises in fact led to large civil service pay increases, at times even overtaking the private sector. Staff associations played a very important role in these pay research exercises. Salaries of top civil servants in Britain, who do not engage in collective bargaining, are set by the Top Salaries Review Body. (The World Bank itself has a sophisticated "comparator" system, which will not be discussed here.)

Objective 4 : Levels of government compensation should be periodically reviewed and systematically revised to assure the continued validity of the compensation plan.

Country experience indicates that this is not always the case. In Jamaica, for instance, while the Consumer Price Index rose by 470% from 1972 to 1982, the salaries of the three highest grades of civil servants rose only by between 40% and 90%. In contrast, salaries of government-employed casual labor rose by 360% over the same period. In Guyana, between 1986 and 1991, real wages in the central government fell by almost 20%, with even greater deterioration in the managerial, professional and technical (MPT) grades. Real salaries in Uganda similarly declined by 20% to 33% *per year* between 1975 and 1983. Real per capita salaries generally declined in Africa during this period, the fall being particularly marked in Ghana, Nigeria and Zambia. Naturally, the objective of periodic review of compensation can be met effectively only when the compensation structure and level are appropriate to begin with.

c. *Design of a compensation plan*

There are two main methods for determining civil service compensation in actual practice. One is the *trial-and-error method*, by ascertaining what salaries are required to attract and retain the required employees with the appropriate skills. By its very nature, this is an *ex-post* method and therefore effective only at the margin. The second approach, and one which is widely employed, is to use some form of *comparison with the private sector*. Both these methods are also influenced in varying degree by collective bargaining, depending upon the country and the category of civil servants. These methods are not mutually exclusive. On the contrary, each can correct and improve the other.

The starting point is usually a *job classification* exercise, in which the positions are systematically arranged. As noted, a sound pay plan should provide equal pay for equal work

and the same pay for comparable jobs. This in turn involves the acquisition and analysis of large amounts of information, such as:

- the skill, effort and responsibility attached to each job;
- the duties of each job;
- whether the jobs are routine or not;
- which jobs require supervision; and
- which jobs are difficult or hazardous or have other special features.

Based on such information, like jobs are grouped into *classes*, and classes involving similar work at different levels of difficulty and responsibility are grouped into *occupations*. These occupations, in turn, are grouped into major *occupational categories* or *groups*.

Many kinds of classification plans exist, but the most important distinction is whether the plan is “graded” or “ungraded”. *Graded classification plans* have the following characteristics:

- a formalized procedure for measuring the level of difficulty, effort and responsibility of each class of positions;
- identification of “grades” (also called “skill levels”), each constituting a specified level of difficulty, skill and responsibility, with successively higher grades constituting successively higher levels of difficulty, effort and responsibility. All classes in any one grade are supposed to require essentially the same level of difficulty, effort and responsibility, regardless of the occupation to which the class belongs; and
- a single pay range for all positions in all classes assigned to any one grade. No other grade in the same pay plan uses that pay range.

Graded classification plans provide *equal pay for equal work within each occupation and among different occupations*. They also have the advantage of being administratively stable in general and able to serve large establishments with even thousands of job classes, since pay levels for only a small number of grades are required to be set. Different techniques are used to measure the degree of difficulty, effort and responsibility of each class of jobs. These include factor ranking, point rating, factor comparison and hybrid comparisons.

By contrast, *ungraded classifications provide equal pay for equal work only in the same occupation*. Their principal advantages are that they are simple in concept and structure and are therefore easily designed and installed. Under such classifications, pay changes for individual classes can be made whenever a need arises, without having to change the entire pay schedule.

No clear recommendation can be made to apply to all countries. There are advantages and disadvantages to both classifications. In general, the trade-off in graded versus ungraded compensation plans is between flexibility and equity — or, to put it differently, between short-term and long-term efficiency. Also, *graded classifications are superior only when they are correct*. If the exercise instead produces phony or self-serving job classifications (as is sometimes the case in practice), its greater cost is not even justified by a better outcome.

d. *Content of a compensation plan*

Typically, a compensation plan should cover, more or less in the following order:

- (i) an identification of the kinds of positions and employees to which it is applicable;
- (ii) a statement of the basic governing pay policy: for example, the intended relationship to prevailing compensation levels in the private sector, and what kinds of compensation are encompassed (base salary only, or base and certain allowances and benefits);
- (iii) the pay schedule;
- (iv) the classes of jobs to which the plan applies, showing the pay range assigned to each class;
- (v) schedules of premium pay rates and rules covering, for example, overtime pay, holiday and weekend pay, etc.;
- (vi) rules for determination of pay on promotion, transfer, demotion, etc.;
- (vii) rules of pay under special conditions, e.g., dual jobs in the same jurisdiction, military and jury duty, weather emergencies, etc.;
- (viii) rules regarding special pay rates, e.g., to alleviate recruitment difficulties for a specific class of positions;
- (ix) rules regarding pay on different kinds of leave, e.g. maternity leave, study leave; and
- (x) rules for resolution of anomalies and discrepancies and redress of employee grievances regarding pay decisions.

3. Major implementation issues

a. *Treatment of non-wage benefits*

One major problem in comparing private and public sector compensation, or the erosive impact of inflation on real civil service compensation, has been identifying and quantifying non-salary civil service benefits. Non-salary benefits take such myriad forms as spouse and dependency allowances; pensions; health and liability insurance; free or subsidized housing and social services; free or subsidized meals; transportation allowances; leave with pay and others too numerous and varied to mention. In the former Soviet Union, for example, employees are often given free housing by the entities for which they work. In rural France, municipalities are still responsible for housing public school teachers. (The salary of rural teachers is considerably lower than that of teachers in large cities.) In India, civil servants are given subsidized housing, with some posts, such as superintendent of jails, carrying free housing. Free education and health care are widespread means of compensating public employees, both in Eastern Europe and Central Asia (where state-owned enterprises used to provide such services), and elsewhere in the world. Direct or indirect food subsidies are also common, from subsidized employee restaurants to direct handouts; for example, in Afghanistan, from the years of the Soviet occupation, civil servants have been given vegetable oil and wheat flour at no charge, along with a free meal per day, instead of a salary increase. It should be recalled, however, that fringe benefits are not certainly unknown in the private sector either—from company cars to club memberships, etc.

The case for scrutiny of non-wage benefits is stronger the more precipitous the decline in real wages. This is because, while some fringe benefits can have a positive role in a well-designed compensation package, others are inefficient and can have demotivating and incentive-distortion effects. Partly a colonial legacy (having been designed for foreign administrators), such benefits and allowances tend to assume increasing importance as the real value of salary declines. Governments have also been known, particularly before elections, to shower largesse through this tactic to woo support, sometimes with disregard to its impact on

already straitened public finances. Staff associations and unions have also used this tactic to keep their members happy. (A particularly inefficient allowance is the “meeting allowance” used in some countries, e.g., until recently, Tanzania. The allowance understandably results in maximizing the number of meetings and minimizing their substance, a perfect way to interfere with administrative efficiency.)

Greater diligence in probing fringe benefits is, however, no guarantee of success in uncovering them, since they are often country/region/organization/service-specific, and lodged in the nooks and crannies of the budget documents. Some, like free housing or transportation, may even be off-budget. Indeed, a proliferation of extra-budgetary funds, in addition to weakening the integrity of the public expenditure management process also distorts in practice the civil service compensation system. The fact that such give-aways are often not subject to outside knowledge or review is convenient for both the granters and the beneficiaries.

Countries such as Indonesia, Liberia and Botswana have adopted reforms by replacing some benefits in kind with a compensatory adjustment in pay. This allows civil servants to pay for the quantity of goods or services consumed. Guinea eliminated rice rations, Cameroon reduced housing allowances and Bolivia abolished special performance premiums in efforts to monetize and rationalize remuneration. However, the impact of these measures appears to be negligible, so far. In any case, effective measures must be taken to prevent the reemergence of the very same benefits-in-kind that have been monetized and added to basic pay.

b. The gender gap

Salary inequalities between men and women are persistent. Although mirroring compensation practices in the larger society, government employment has typically failed to provide the model and the leadership for putting into practice the elementary fairness and efficiency principle of “equal pay for equal work”. It should be a continuing priority for government and external donors alike to plan for greater and greater convergence in pay equity for men and women in government service — albeit in a manner that is mindful of country traditions and customs. The gender gap is widest in developing countries, but the problem persists even in highly industrialized economies (see Box 10).

Box 10. The Gender Gap

Although discrimination on the basis of gender is now explicitly prohibited in most countries, there remains a difference between women's wages and men's wages— referred to as the "gender pay gap"— in many areas of civil service compensation. The gender gap is especially large in developing countries. But even in developed countries, the following points are worth noting:

- Women's jobs have traditionally been undervalued and thus compensated less than men's jobs, leading to situations such as the one in Denver, Colorado where nurses were paid less than tree trimmers.
- In the USA, figures for the period 1960-1990 from the Department of Commerce indicate that median earnings of women have fluctuated between 57% and 70% of male median earnings.
- In Australia, it was not until 1972 that the principle of equal pay for equal work was adopted. Indeed, a landmark judicial decision in a 1912 case justified lower wages for women because, unlike men, they did not generally support a family. Thereafter, a practice of fixing the female pay rate as a percentage of the basic male wage rate was begun by the judge. That rate was officially fixed at 54% until 1949, when it was increased to 75%. By the end of the 1970s, however, base pay for women had risen from 74% to 94% of that of men.
- New Zealand officially sanctioned different wage rates for men and women in 1903, legislatively authorized in 1934 and 1945. Only in 1972 was the Equal Pay Act passed. Thereafter, hourly earnings of females rose from 71.3% of male earnings in 1973 to 78.5% in 1977.
- Britain, too, explicitly countenanced gender-based pay-discrimination till 1975, when the Equal Pay Act of 1970 came into effect.

c. *Salary Compression*

In addition to pay erosion, salary compression has been another chronic problem of civil service pay structures in many countries. Wage reduction in practice has entailed larger proportionate cuts at higher levels (and/or salary caps). Although understandable from a short-term equity point of view, the longer-term impact of such an approach has been minimal to both efficiency and equity. In particular, progressively worse salary compression eventually leads to loss of employees with options, i.e., the better employees. Internationally, the compression ratio (the ratio of the midpoint of the highest salary grade to the midpoint of the lowest) varies widely, from highs of 30:1 or more to lows of 2:1 — with a mode of around 6 or 7 to one. Note that an increase in the ratio means decompression of the salary structure. As a result, particularly in Africa, decompression of the wage structure is an important objective of civil service reform. The *compression ratio* for selected countries in the early 1980s and early 1990s is shown in Table 4.

**Table 4: Wage compression ratios,
selected countries, various years**

<i>Country</i>	<i>Late 1970s</i>	<i>Early 1990s</i>
Central African Republic	9 : 1	9 : 1
Gambia	8 : 1	6 : 1
Ghana	6 : 1	10 : 1
Guinea	9 : 1	5 : 1
Guinea-Bissau	5 : 1	4 : 1
Laos	3 : 1	7 : 1
Malawi	33 : 1	30 : 1
Mauritania	7 : 1	3 : 1
Mozambique	2 : 1	9 : 1
Niger	18 : 1	15 : 1
Nigeria	18 : 1	9 : 1
Senegal	8 : 1	6 : 1
Sudan	13 : 1	9 : 1
Turks and Caicos	7 : 1	4 : 1
Uganda	6 : 1	8 : 1
Zambia	14 : 1	7 : 1

Source : Barbara Nunberg, "Experience with civil service pay and employment reform : an overview", in Nunberg and Lindauer, 1994.

The decompressions in salary structure seen in the cases of Ghana, Laos, Mozambique and Uganda were due to specific decompression objectives forming part of pay reform programs. In the absence of civil service reform programs, the economic difficulties and more stringent fiscal constraints of the 1980s have tended to cause government wages in most developing countries to become more compressed, and incentives to suffer as a result.

d. Grade inflation: the worst response to inadequate compensation levels

It is understandable that a public sector manager, confronted with deserving staff with badly inadequate salaries, is tempted to promote them to levels for which they are not qualified as a way to prevent further deterioration in their real salary. However, in a very short period, grade inflation produces all the disadvantages of inadequate incentives and in addition destroys the government capacity to manage its human resources. Examples abound in the developing world. Thus, in Trinidad and Tobago, disguised pay increases were given by filling upper/middle professional vacancies with under-qualified staff on acting basis, while pay scales were too low at high levels and too high at low levels, causing severe imbalance in employment. Guyana, too, suffered from grade inflation through filling of vacancies by unqualified persons on acting basis; there was resentment and loss of morale among civil servants because special salaries and allowances were paid to staff in some ministries and not others; there were distortions in structured pay systems due to unapproved recruitment; and temporary hiring at higher rates and through contracts. And in Yemen, the practice of bringing in unqualified outsiders to fill high-level positions for which they were totally unsuited was widespread, especially after unification in 1990, and was a major factor responsible for the degradation of the civil service since 1992 (see Box 11). All of these ad hoc responses to

inadequate compensation ruined the system on which more adequate incentives could be built in the future.

Box 11. Yemen: Facing Up to the Administrative Cost of Unification, Civil War, and Patronage

After the 1990 unification between North and South Yemen, central government civilian employment in Yemen grew from 65,000 in the North before 1990 to almost half a million, or about 3% of the population, compared to an average of 1.4% for the Middle East and North Africa. The initial increase was due to the creation of parallel administrative structures with different traditions and extensive duplication of functions, consequent to the merger with the South. The government also absorbed many former employees of Southern public enterprises, and acted as employer of last resort for new school graduates. Finally, and most damaging, the civil service was increasingly used as a source of personal and political patronage. The personnel management system virtually collapsed: an unknown number of persons collect salaries of deceased persons and in some cases more than one salary under different identities; it is reported that about half of the government employees do not even report for work or report for only part of the day; under-qualified people were hired by the tens of thousands; and ineligible ones indiscriminately promoted. Given the fiscal constraints, the bloated government payroll has led to much lower real wage levels and narrowed the difference between the highest and lowest salaries. This erosion of incentives and disregard for qualifications and performance has resulted in general deterioration of employee discipline, morale and performance. Consequently, the delivery of social services to the population was also badly affected.

In order to gradually reverse this deterioration, the government is considering a demanding agenda for reform of public administration. Immediate measures would include a freeze on all types of recruitment; sequestering of all future vacancies arising out of retirement, termination, death or resignation; temporary halt in promotions except in individual exceptions expressly approved by the Prime Minister; and halt on absorption of contractual and temporary employees into permanent positions. Short-term measures would involve a complete census of all types of employees; removal of ghost workers from the payroll; an improved personnel management information system; completion of studies on job classification, personnel procedures and salary structure; and deciding on the recommendations through a participatory approach. Medium-term measures would aim to implement the recommendations of the studies; simplification of regulations; review of the functions, organization and cost effectiveness of government and key ministries; a mechanism for re-certifying employees in order to screen out those without minimal qualifications; and a program for deploying others. As part of the long-term measures, each ministry and agency would be required to submit a concrete restructuring plan consisting of a statement of objectives; strategies for achieving these objectives; staffing program; a time table for staffing decisions; simple indices of administrative performance; training needs; and financial requirements. Once the plan is approved and implementation begins, the ministry in question would be allowed to freely recruit from other ministries; resume normal wage increases and promotions; have its reasonable financial needs met; and move up to the new salary scale established in the meantime. However, the government is yet to take the significant, immediate measures essential to begin the reform process and give it credibility in the eyes of the public.

e. Performance Pay?

In recent years, largely from an understanding of the disadvantages of compressing the wage structure, the question of wage increases targeted to scarce skills and/or essential functions has moved to the forefront of policy attention. (Similarly, training is now being seen

more as a focused way to fill selected skill gaps rather than an across-the-board program to lift the general educational level of the workforce.) This is entirely legitimate. However, a word of caution about 'performance pay' is in order here. The notion is very attractive in theory. (Indeed, in some sense, all pay is for performance.) It is intuitively appealing to link bonus schemes (not increases in base salaries) to yearly performance in terms of specific quantified output measures. Unfortunately, the empirical evidence shows that performance pay schemes have been only marginally effective in improving performance (see, for example, Mikovich and Wigdor, 1991), especially in the public sector where outputs (despite recent innovations—e.g., in New Zealand) remain difficult to quantify. Performance pay can also introduce an additional element of political control over the career civil service. And in multi-ethnic, multi-religious or clan-based societies, performance pay can be lethal to a delicate social balance; even when administered fairly and well (which is hardly likely in such societies) the perception of favoritism is next to impossible to prevent. The intent here is not to dismiss performance pay options, but to caution against "fashion" and to recommend careful analysis of the specific situation to ascertain whether their benefits outweigh their costs (and risks).

While performance pay schemes may or may not be appropriate, meaningful performance *incentives* are a must. First and foremost, the overall salary structure and the recruitment and advancement system must reward performance and penalize (and correct) under-performance. Nothing demoralizes good public servants and destroys performance more than favoritism and patronage in recruitment and promotion. In addition, human beings do not live by bread alone: non-monetary incentives can be very important, especially among the professional ranks. These may include more challenging tasks, influential assignments, public recognition, training opportunities and professional rewards, among other things. In any case, informed, candid and equitable performance assessment is the cornerstone of any incentive system.

E. IMPROVING ACCOUNTABILITY

Without improvements in effective accountability, rightsizing and adequate incentives will result in a small, well-paid, *and* inefficient and corrupt civil service. Accountability, like wage adequacy and overstaffing, is a relative notion. Strengthening civil servants' accountability to their administrative superiors (and, one hopes, to their subordinates as well) may be necessary. But strengthening internal administrative accountability is rarely sufficient to produce an improvement in government efficiency and the quality of services to the public, because internal controls are often ineffective—especially when the social ethos tolerates collusion between supervisors and subordinates.

"Outward accountability", therefore, is essential for greater responsiveness to the needs of the public and thus to improve service quality—whether it is the individual civil servant who is directly accountable, or the service unit, or the ministerial department as a whole. Outward accountability can be increased in a variety of ways—user surveys, individual name-tags, investigative journalism, media access (e.g., radio talk programs), whistleblower laws, public opinion polling, etc. (Various devices to this end have been pioneered recently in Australia, U.K. and New Zealand.) Unfortunately, early attempts at canvassing user views in developing countries have not always been carried out by statistically sound methods. This is a must: anecdotal evidence or casual surveys produce distorted findings and result in

unwarranted rewards or penalties for those affected, harming the very credibility of the approach.

A rise in individual accountability must be accompanied by commensurate rewards and consequences for non-performance (training, rather than penalties, may be the right response). The weight of evidence from all countries shows that the lack of credible consequences turns serious accountability reforms into bureaucratic formality. Here, *the magnitude of the reward or the severity of the penalty matter less than their certainty, swiftness and fair and uniform application*.

Dependent as they are on the growth of public expectations and development of a professional service ethos among government employees, improvements in outward accountability should be permanently incorporated into the management agenda of every governmental department responsible for service provision. The interface between the need for outward accountability and the desirability of a participatory approach is evident and strong: the real experts on how to improve accountability are those whose own accountability is weak.

Decentralization, too, provides opportunities to improve service design, targeting and delivery—although it also carries the risk of reducing systemic accountability if not carefully designed and monitored. Finally, not only can private participation to the provision of certain social services improve the services in question but the resulting climate of 'contestability' has a salutary effect on public sector efficiency in other services as well.

F. SELECTED CIVIL SERVICE ISSUES OF LOCAL GOVERNMENTS

1. General considerations

Decentralization is increasingly being urged in different countries on grounds of efficiency, effectiveness, coverage, participation, empowerment and sustainability. The details need not be gone into at this point, except to say that experience from different countries suggests that there might be a wide variation in the extent of applicability of these justifications. Decentralization is also argued for on the grounds that local governments, especially cities, could levy higher taxes and could thereby charge residents the full marginal cost of development (which would, in the case of cities, lead to a more efficient size distribution); that a higher rate of national resource mobilization could be achieved since local governments could tax some sectors of the economy more easily than the central government. A further boost to greater autonomy for local areas has been the increase in the frequency and stridency with which ethnic, religious, cultural, linguistic and other identities are being asserted in different regions of the world.

Local governments typically face a number of personnel problems and possibilities additional to those discussed in earlier sections. Although a full discussion of human resource issues in local government belongs under the heading of administrative decentralization—a vast topic not covered in this paper—certain considerations are necessary to place the global civil service issues in context. The term "local government" as used here (as in the comparative statistics presented in Chapter I) means all government entities other than the central government. Such non-central governments can include state/provincial governments, as well as urban/rural elected bodies of different kinds. Some of the key issues are identified below.

2. Employment issues

Some of the employment issues specific to local government are:

- Given the wide variety of tasks assigned to different tiers of local government, it may not be possible, or even necessary, to arrive at an optimum number of employees for an entity;
- The need for specialized personnel is partly related to the size of the territory covered by the entity. Below a certain level, it is not cost-effective for each similar unit to have specialists/technical personnel. This is of particular relevance for developing economies where there is a general shortage of technically qualified personnel;
- A decision is needed on whether recruitment of all civil servants is done by each local entity, by a central organization, or by intermediate mechanisms (e.g., middle executives locally recruited and the top level centrally appointed);
- How to ensure transparency in appointments and recruitment, and whether and to what extent uniformity of classification of posts and qualifications is required;
- In areas sensitive to race, religion, language and ethnicity, how to ensure that all persons similarly circumstanced are treated alike for purposes of public employment and that no person or group is discriminated against;
- The arrangements for accountability of civil servants; for ensuring certain and swift punishment for transgressions; for equally certain and swift rewards; for protecting honest and independent civil servants from political and other harassment; and for allocating training funds and deciding on training programs;
- The setting and monitoring of performance standards.

3. Compensation issues

Overall wage policy has been discussed earlier. Compensation issues for local governments have to do with such matters as :

- Whether each local entity will have autonomy in designing the compensation package. If so, whether it is necessary or desirable to rationalize the anomalies that will almost certainly result, or will the market institutions take care of it?
- If there is to be any degree of relativity between the different tiers of government entities and between entities in the same tier, what are the best means or mechanisms for arriving at such relativity? Will such relativities imply a hierarchy among the organizational entities and if so, is it good or bad?
- How will the compensation packages take care of the stagnation factor (i.e. situations in which opportunities for upward mobility will be restricted because of the small size of the personnel structure)?
- How will incentives for performance be built into the compensation structure so that they are transparent and objective?

- Will the limited spatial reach of some of the entities not preclude them from having sufficiently elastic sources of revenue, so that they will be unable to pay compensation comparable to the private sector? If so, what is the way out?
- What review mechanism can be designed for each entity, or for groups of entities, so that salaries and benefits of employees can be protected in real terms on a continuous basis?

4. Local accountability

We emphasized earlier that without an improvement in systemic accountability, many civil service reform measures are unlikely to raise efficiency or equity and may, in certain circumstances, even make a bad administrative situation worse. With regard to local government, the issue of accountability is articulated into such questions as :

- Defining, as much as is possible, the frontiers of political and bureaucratic accountability for each tier of decentralization. This is perhaps more important at the lower tiers, where institutions are likely to be undeveloped, policy-making and executive roles often unclear and checks and balances absent;
- Providing quick and inexpensive methods and structures for redressing citizens' grievances against the civil servants, as well as similar steps to protect civil servants from undue political and other forms of harassment. This step, again, is all the more necessary at lower levels of decentralization, since that is where the citizens' interface with the structures of governance is most intimate and frequent, and local issues, which are often immediate and emotive, tend to generate controversy and passion which can sometimes escalate beyond anticipation;
- Devising suitable management information systems for planning, finances, projects, and personnel;
- Ensuring adequate monitoring and evaluation of all aspects of work;
- Enlisting the participation of the local community or the stakeholders as the case may be, which can enhance accountability and improve local government-community relations. The process of participation itself being a subject by itself, suffice it to say that participation should not be for form's sake alone, but in the real sense;
- If there is to be a hierarchy of decentralized entities, even if for specific purposes, the lines of accountability should be clear and unambiguous;
- The concept of accountability also extends from the top down, for example in matters of fiscal devolution and revenue collection and sharing. Such matters should be based on clearly intelligible, rational, objective and quantifiable criteria, to minimize discretion and ensure a degree of certainty in fiscal flows. Ideally, there could be constitutional bodies to determine the categories of revenues to be shared, the principles on which such revenues are to be shared, the modalities of collection and the amounts to be so shared, between different tiers and between entities in the same tier; and

- The audit function is one which, if properly undertaken and followed up, can be a highly visible and effective instrument for enhancing accountability. While internal audits have never been known to be as effective as external ones, independent auditors will only add to accountability.

5. Local capacity-building

Civil service reform at the local government level is not only complex and of long duration, it is also fraught with uncertainty and risks. This is not only because of sheer numbers and the difficulties inherent in attempting reforms in so many local bodies, but also because, as has previously been touched upon, organizations tend to be weaker and more undeveloped the lower one goes down the ladder of decentralization. Four main issues can be singled out:

- Training of civil servants and political executives of local governments can improve performance and lead to a better understanding of each other's roles. Joint retreats and sensitization sessions, where gender issues, environmental considerations and concepts of participation and governance (among other things) have been introduced, have been organized to good effect in India;
- The importance of regular, free and fair elections to local bodies cannot be over-emphasized. Their absence is often the bane of decentralization, and it is only the electoral process that can legitimize and fertilize the seeds of local government. A politically neutral and professional civil service is a sine qua non for the objectivity of the electoral process;
- Legal institutions too have a prominent role to play. The rule of law often goes by default due to delay and obstruction in the legal process. With specific reference to local government employment, it is worthwhile to establish separate tribunals with exclusive jurisdiction over service matters, so that reform processes are not obstructed, and also to ensure that civil servants who have been administratively wronged can obtain speedy justice. Nothing is more dismaying for the reform process than the spectacle of a few disgruntled employees holding the reform process to ransom by legal obstructionism;
- In economies making the transition from a centralized to a decentralized system, the process of transition itself will have to be carefully handled because many institutions and market mechanisms will be absent or embryonic. The importance of realistic sequencing cannot be over-emphasized.

III. MANAGING CIVIL SERVICE REFORM: SOME LESSONS OF EXPERIENCE

A. THE GENERAL CONDITIONS FOR REFORM

Civil service reform is intractable only in countries saddled with rapacious patrimonial regimes. These regimes are by definition uninterested in efficiency and development; for such regimes, the real 'risk' of civil service reform is a loss of control. It is therefore a bad mistake to assume that all governments are "obviously" interested in improving the economic conditions and efficiency of public employees. On the contrary, for a rapacious unrepresentative regime an underpaid, de-skilled civil service is an asset: it keeps public employees dependent on the regime's discretionary largesse for their survival, impels their corruption, precludes their 'exit' and turns them into reluctant accomplices. In these kleptocracies, while there might be conceivable reasons for certain kinds of external involvement, assistance to strengthen the efficiency and compensation of the civil service would be a wasteful delusion. But, in most cases, civil service reform is difficult but manageable. We know so, because it *has been* managed (e.g., Malaysia, Uganda). It is, however, especially complex and of long gestation, and requires several conditions to have a chance for success. International experience shows that there are six general conditions for constructive efforts at reform.

1. "Ownership": The basic prerequisite

Predictably, the general condition for successful structural civil service reform is genuine ownership of the reform—by the government as a whole if systemic issues are to be addressed, or by a major player in government if the strategy begins with reforms in an individual sector or civil service function. In either case, support from the highest political levels is necessary. Diagnostic and cost-containment measures have less stringent ownership requirements—but without active local involvement at the appropriate level the returns will be minimal because of lack of follow-up. Beyond diagnosis and pure cost-containment, civil service reforms simply cannot be implemented in a sustainable fashion on the basis of the stakeholders' benign neglect, let alone over their opposition.

2. Long-term vision

A coherent long-term vision is mandatory. It is important for sustainable reform that governments flesh out in concrete detail the generic goal of a small, efficient and responsive civil service, oriented towards providing an enabling environment for the private sector while protecting important public interests. Just rhetoric won't do. To the extent possible, targets should be quantitative, intended criteria explicit and timetables specific. Without a coherent and specific vision of the civil service *as it should become*, pragmatism becomes ad-hockery, public support dissipates and haphazard reform actions come to a stop. But, *however fine, the vision of a few cannot be a living guide for the actions of the many*: the process of involving the "public" into defining a vision of the profile and behavior of public servants is crucial to its practical value as a policy guide.

3. Selectivity

Selectivity of intervention is important because it is obviously unrealistic to try and reform the system all at once. Interventions should be focused in those sectors (or functions) which are: (i) important; (ii) amenable to significant improvement in a reasonable period; and, *a la* Hirschman, (iii) likely to generate role-model effects or positive pressures for personnel management improvements elsewhere. Selectivity does not mean picking winners and losers, or focusing on partial solutions to an inherently systemic problem. Instead, *selectivity is a criterion for optimal sequencing*, by strengthening in turn different institutional linkages, in the context of the clear long-term vision mentioned above.

4. Sensitivity

Sensitivity entails primarily an understanding of the situation of those affected and of social constraints. It is clear that expatriate advisors do not always possess such an understanding; but often, local policy-makers and high government officials are equally out of touch with the realities of the government personnel system and of the state of public services. It is essential to identify those who do know such realities first-hand, and listen to them. As noted above, a long-range reform program rests on sand if it is elaborated without consulting those who have relevant information and those whose cooperation will be needed to implement the program.

5. Stamina

Stamina is required by the long gestation of civil service reforms, which calls for a long-term investment of imagination and resources and government willingness to stay the course.

6. Institutional capacity

The need for institutional capacity is evident. However, capacity need not be pre-existent: it can be improved as part and parcel of early interventions, so long as the civil service reform program relies as much as possible on local expertise and is designed with an explicit training element.

B. COPING WITH THE TRANSITION: PRACTICAL LESSONS OF INTERNATIONAL EXPERIENCE

Despite the importance of a long-term vision for civil service reform, it is the question of "how to get there from here" that has suffered the worst disregard. It is not surprising that, when faced with the size of the gap between reform goals and civil service realities in many countries, many reasonable people shy away from any involvement in civil service issues. But common sense and growing experience point to various ways in which to begin to bridge the gap.

1. Testing for readiness

It is important not to assume, but to test, that circumstances are ripe for constructive efforts at reform. Among the myriad practical ways for the government to test its own and the system's readiness, three can be mentioned:

- undertake some specific action, *no matter how modest*, as trigger of significant involvement. If it proves impossible to take easy initial steps, the hard ones will not have much of a chance at success. Furthermore, to do so will "flush out" at an early stage the reform opponents;
- devise a 'transparency test' and reality check to open up some part of the personnel management or service process to public scrutiny and to begin building public support; and
- issue a meaningful public statement of intention concerning civil service issues.

More generally, it is *society's* readiness, not the government's, that is at issue. As the old saw has it, in a democracy people get the government they deserve. But even in authoritarian regimes administrative culture reflects the norms of society at large. *The behavior of public servants is determined in part by the expectations of the public.* Thus, information, 'best-practice' dissemination and other ways to raise general public expectations of access to and quality of services are needed to complement government efforts targeted to improving civil service efficiency.

2. Diagnostic measures: a constructive beginning

Cost-containment measures may be the necessary first step when the fiscal burden of government employment has reached unsustainable proportions. Of course, as argued earlier, cost containment will not by itself lead to lasting improvements in civil service performance. By contrast, the structural civil service reform measures offer the possibility of "win-win" outcomes, but are politically delicate, of long gestation and difficult to implement. However, in most cases governments can initiate factual and analytical work in these areas even when the probability of actual reforms is a long way off.

Diagnostic activities are both an obvious prerequisite to sensible reform, and a non-confrontational first stage of the process—provided that the results are properly disseminated. Governments are not always aware of problems in their own administrations until the facts are uncovered. Often, the bare facts make the direction of reform painfully obvious. (Of the over 100 World Bank operations with significant civil service reform components since 1981, about half have included such 'diagnostic' activities—Nunberg and Nellis, 1991.) Even when political or social circumstances are not conducive to reform, governments are often interested in functional reviews, institutional assessments, improvements of personnel information systems, pilot surveys of user opinions, and the like. Also constructive in the early stages are improvements in procedures for recruitment, interview and selection of staff. While they may not affect the quality of personnel decisions right away, the very availability of better guidelines can be useful to the administrative units which do wish to improve personnel selection.

Among diagnostic activities, a particularly good start for reform is a civil service census. A well-designed census (which will normally require external assistance) yields information on 'ghost' workers and fraudulent wage payments, which almost all governments will find relatively easy to do something about—as there is no overt constituency for theft. Also, a census brings to light major distortions and provides the human resource database necessary for eventual personnel management improvements. It is important to stress, however, that if a civil service census is not accompanied or quickly followed by a strengthening of personnel systems, the problem of 'ghosts' will reemerge in short order, no lasting improvements in human resource management will follow, and the credibility of the process will suffer. To reiterate, a civil service census is only a start to the civil service reform process, not an end in itself.

3. Operational approaches to reform

a. *Strengthening the linkages*

As already noted, sequencing is very important, i.e., improving recruitment controls along with downsizing. More generally, each reform measure should, ideally, make the *next* reform easier. We argued at the beginning of this paper that the limited "capacity to reform" may be the binding constraint on civil service reform. It is useful, therefore, to think in terms of *strengthening the linkages* among components of the new administrative system which the government is trying to put in place, so that each decision is facilitated by the previous ones. A specific approach to do so, the "efficient nucleus" approach, has been developed (Schiavo-Campo, 1994), and used in some transitional economies with initial promising results.

b. *"Efficient nucleus" versus "enclave"*

Action to strengthen linkages and communication channels facilitates but does not in itself generate the spread of new rules and efficient organizational practices. There must also exist dynamic agents of change that can generate the positive "messages" to be transmitted throughout the system by the improved communication channels. These agents, these "efficient nuclei", must be deliberately created to perform a few key selected public functions; and *spread new institutions and organization practices throughout the system.*

An efficient nucleus should meet the following practical standards:

- be small;
- be fiercely meritocratic, in the initial selection and in the evaluation of staff performance;
- have flexible and simple procedures;
- provide adequate compensation for staff. (As discussed below, this may require fixed-term contracts without fringe benefits, to permit adequate salaries without compromising eventual decisions on fiscally sustainable civil service structure and compensation);
- have adequate material and financial resources;
- use local talent, with external advisors only when demonstrably necessary;
- be transitional, with a clear sunset clause and advance specification of the procedures for reassignment of its staff throughout the relevant government agencies; and

- operate not only to perform specific tasks but also a teaching-by-doing function.

An illustration of the efficient nucleus approach, in the area of public investment, consists of creating a “visiting team” unit, in the core ministry charged with public investment responsibility. The unit would comprise a small number of highly qualified, newly trained local analysts and an experienced external advisor—all with excellent communication skills in addition to economic competence. The unit would provide ad hoc assistance to sector ministries—at the right points in the PIP cycle—by sending a visiting team “in residence” for a brief period of time. This would combine knowledge of economic methodology with the specific technical knowledge and sectoral familiarity of ministries’ staff. The team would visit each sector ministry in turn, and interact with its staff to produce better-quality decisions as well as some “teaching-by-doing”. The relationship would be one of cooperation and mutual assistance—because decisions on actual approval of projects for funding would be entrusted to an entirely different core entity. Such relationship would therefore encourage informal exchanges of information and advice as and when needed. When, helped by this mechanism (and, of course, their own specific training programs), sector ministries have acquired sufficient project preparation capacity, the visiting team unit would disband—and its personnel would be reassigned to take care of PIP matters within the core ministry as well as lead the work in sector ministries.

By contrast, it is essential to resist the temptation to “fence” segments of the new civil service in order to insulate them from the existing inefficient system. ***Enclaves do not work in institutional development any more than they do for physical development projects.*** There are two basic differences between an efficient nucleus and an enclave. First, an efficient nucleus is aimed at spreading institutional improvements throughout the system. Second, efficient nuclei should be encouraged to emerge within an existing organization, to reform it from the inside—a benign mutation rather than a threat. By contrast, enclave projects normally either ignore or bypass the existing organizations. The organizational strongholds being bypassed refuse to wither away, and actively resist and subvert the reform process. One major reason for the negative experience with enclaves is that the enclave approach gives the *people* in the existing organizations **no hope** to participate in the reform process.

c. *The role of hope*

It is important that reforms incorporate positive incentives for all who are still “inside” the system. Severance pay, retraining and job placement assistance are, of course, important. Beyond these measures, however, civil service reform must at least incorporate a *potential* benefit for individuals in the system, the *hope* to become part of the new institution, the *chance* of turning themselves from losers from the reform to winners. The individual’s average probability of access to the new system may be low, but a non-zero average probability combined with the individuals’ capacity to raise their chances through personal effort, with the help of appropriate training, may suffice to motivate enough people into supporting the reform. The key proviso is that there must be absolute confidence in the equality of opportunity of access to the new system. (The implications for governance are, of course, far reaching.)

Governments should have no illusion that incorporating the “role of hope” in civil service reform programs can remove, or even substantially reduce, resistance to the reform. It can, however, turn many opponents into supporters; at the margin, this may make the difference between success and failure. Also, well-designed and fairly administered training-

for-access programs can have an important demonstration effect in terms of the principle of reward for effort and performance, rather than for political or ideological loyalty. In any event, equal opportunity of access is the right thing to do.

d. "Internal structural adjustment"

A way of managing the transition from a dysfunctional to a radically different system is to give individual administrative units positive incentives to reform, and place the burden of proof on them. By analogy to structural adjustment programs supported by the World Bank and the IMF, formulation of a coherent administrative reform program by the government permits defining the required adjustment for all ministries, and hence appropriate 'performance criteria' for each. As proposed for Yemen, for example, ministries which meet those criteria would become eligible to apply the new salary scale and/or to recruit new personnel, and/or benefit from external assistance, but in the context of a 'business plan' consistent with the overall reform program. For such an approach to succeed, it is of course essential to have an autonomous and credible mechanism of evaluation outside the government itself. (Of course, if the government is not interested in genuine reform, any such scheme is only a bureaucratic game; but then, there would be little prospect for genuine reform in the first place). In Japan, good results have been obtained by having outside agencies as initiators and arbiters of reform, giving discretion to administrative entities in achieving broad reform goals, and recognizing the importance of psychological motivation. In general, although far more industrialized, Japan provides useful lessons for civil service reform in developing countries (see Box 12).

In any event, giving the individual administrative units positive incentives for reform is consistent both with the concepts of the new institutional economics (see section II. A) and actual reform experience. Whatever the internal dynamics of a specific government may be, there are always ways--if one looks hard enough and in the right places--to make them work for reform rather than against it. By its very nature, this argument can be elaborated on only by reference to the specifics of individual country situations, and not in the context of this general paper.

Box 12. Japan: The "Bonsai" Approach to a Small and Efficient Civil Service

In Anne-Marie Leroy's analogy, the Japanese approach to the civil service can be likened to a "bonsai", the careful grooming and nurturing of a perfectly proportioned and very small system.

A wide array of factual information appears to link Japan's civil service with its economic development. In brief, Japanese civil servants consist of the 'best and brightest', working long and hard; the bureaucracy is very small and has been deliberately kept that way; it has been quite responsive to democratic political controls; petty corruption is minimal; retirement comes relatively early and smoothly, leaving top positions open to be filled by individuals in their late 40s and early 50s. Meanwhile, many retiring civil servants relocate to new positions, thereby bringing their skills into the service of the private sector (a phenomenon known as *amakudari*, or 'descent from heaven'). Competition among agencies is also extensive; this builds an inventiveness and competition throughout the civil service that is often lacking in public sector agencies in other countries.

The Japanese government has also explicitly pursued, through a variety of measures collectively known as 'administrative reforms', a persistent objective of a small, efficient civil service. Such measures include personnel and agency budget limits, simplification of regulations, reduction of agency authority, privatization of SOEs and reform of the public pension program. Further, the legal structure of public administration insulates the civil service as well as the implementation of laws from politics and assists in maintaining a corps of professional civil servants. Professionalism is also enhanced by insulating from political patronage civil service recruitment and advancement, and by harmonizing the career goals of civil servants with broader national goals. Also, the civil service has played a crucial and proactive role in promoting Japan's 'catch-up' economic and technological ideology. This was assisted by the fact that the civil service and the private sector, instead of jostling for supremacy over one another, have successfully cooperated. (Stiglitz, 1996 has identified the cooperation between public and private sectors as a key factor for the East Asian "economic miracle".)

4. Transitioning to sustainable and adequate incentives

In trying to move away from an underperforming and underpaid civil service, *without* massive fiscal implications or immediate wholesale reform, the following conclusions and transitional measures have emerged from recent practice. It is essential that such measures be a transition to something, and hence that they be formulated as part of a coherent and concrete vision of reform and implemented as a step in the sequence leading to that reform. Taken in isolation, instead, such "transitional" measures would produce little but the enclaves which so richly failed throughout the developing world. The list is by no means exhaustive:

- in the acquisition of 'new blood', it is possible to create a two-tier system (as in Poland) whereby new staff are recruited at the new salary scale and are expected to meet higher standards of qualification. Over time, the new system will expand and the old one contract, eventually leading to a unified system with better-qualified, better-paid staff. Like dual exchange rate systems, this approach is workable only if it is transitory;
- even at existing inadequate salaries, young, better-trained people can be induced to join for limited periods if given challenging responsibilities and solid training (as in Estonia). When they leave, others can be recruited. The training requirements within the government sector are semi-permanent, but the capacity of the economy as a whole

the government sector are semi-permanent, but the capacity of the economy as a whole is enhanced; general understanding of the work of government is improved; the average performance of government employees rises; and positive models are offered to permanent employees for their own betterment;

- special transitional arrangements for contract employees (higher-skilled, paid above the existing scale) can be workable (as in Lebanon), provided that the allocation of such contractual posts to government bodies is decided at high levels; that each appointment is cleared individually and personally by the top executive (normally the Prime Minister); and that these arrangements are part of a genuine transition to an overall salary reform;
- to be resolutely avoided is the notion of permitting individual negotiations between new staff and ministries (as in Guyana). Such a scheme results in short order in glaring distortions and inequities, and compromises prospects for sustainable reform.

5. Other lessons of experience

In no particular order of importance, the following are worth mentioning:

- centralized personnel management systems generally do better on a practical cost-benefit test than decentralized systems. (This consideration in no way affects the advantages or disadvantages of deconcentrating or decentralizing personnel *authority*, an important separate issue which should be examined in the context of overall administrative decentralization);
- capacity constraints in developing and transitional countries suggest traditional, unified, fixed-increment classification and pay systems (such as those which prevail in Japan, France, the Netherlands, USA, Germany, Korea, Canada, etc.);
- simplifications in the grading structure (such as broad-banding, applied in Australia, New Zealand, Sweden, etc.) and reduction in the number of job classifications (as in Dominica, where 100 pay scales were reduced to 14 for middle and lower management) can provide flexibility in rewarding difficult-to-attract professional skills;
- “multiskilling”, if undertaken with appropriate consultation (with unions, as in Australia), can allow more efficient use of scarce skills by allowing broadly trained staff to move among a range of skills;
- upward feedback, that is, surveying the views of subordinates on a systematic and confidential basis, is an essential component of informal evaluation of managers;
- transitional and reforming countries could explore the Singapore model of wage policy, which links civil service pay levels and allowances with overall macroeconomic performance;
- finally, external assistance, while potentially valuable, also carries special risks for civil service reform. The dependence syndrome, which is occasionally generated by technical assistance for physical investment projects, is very common in technical

Box 13. Bolivia: Remedying Donor-Abetted Administrative Duality

In the early 1980s, Bolivia faced a severe economic crisis reflecting ineffective macro-economic management, political instability and institutional problems, and resulting in acute hyper-inflation (average of 1600% during 1980-85). The crisis also led to administrative chaos in the ministries and affiliated agencies. The structural adjustment process introduced in 1985 demonstrated that these institutions were not competent to fulfill their roles. This forced political authorities to use specialized external teams financed by international assistance. However, while foreign assistance was a good source of technical support in the short term, it started causing distortions in personnel policies and pay structure in the public administration, raiding the best personnel and weakening domestic capacity. In turn, the increasing weakness in domestic capacity began to threaten the sustainability of the reforms.

The state's central administration in effect now consists of two groups – a smaller group receiving support from foreign assistance projects, who are the more qualified professionals, and the larger group remaining in the old structure of public administration – underpaid, less skilled and spending their time on administrative tasks of little relevance. The larger group are also demoralized due to absence of a career development path and political interference in hiring and promotion. The existence of a privileged professional group in public administration, also made difficult the consistent application of personnel policies.

A public administrative reform program designed to recruit and retain the most qualified personnel aims to accomplish the objectives through downsizing, modernizing and restructuring the public sector. The ratio of support staff will be reduced from 5:2 to 2:3 resulting in a total staff reduction of 41%. Wages will be increased more than proportionately, on balance increasing the wage bill by 45% over a ten-year period. However, this total increase of US\$24.4 million represents only 0.3 % of GDP and 0.6 % of public expenditure estimated for the tenth year. Also, the external financing needed will be lower than the current financing from donor organizations for technical assistance, making the program financially viable. In effect, remedying the negative impact from short-sighted technical assistance of the past, will require foreign aid to finance the improvement in incentives needed to return the qualified local professionals back to the home of their own civil service.

Source: "Civil Service Reform in Latin America and the Caribbean"; Chaudhry, Reid and Malik, 1994

C. A CONCLUDING WORD

The subtitle of this paper disclaims any attempt at a thorough and comprehensive survey of all relevant dimensions of the relationship between the civil service and economic development. We do hope that our selective synthesis has yielded, at least, key reliable facts to replace the frequent myths and shibboleths concerning government employment and pay in developing countries, and particularly that the country-by-country data in the Appendix will be of practical use to all those concerned with civil service problems in particular countries or sub-region of the world. We also hope, however, that our central message has been clear: *the mere facts concerning government employment and wages in any country say nothing in and of themselves about the need or direction of civil service reform. Reform recommendations must rest on a solid basis of country-specific analysis.*

themselves about the need or direction of civil service reform. Reform recommendations must rest on a solid basis of country-specific analysis.

We trust, too, that this paper has provided a clear sense of the benefits and costs of embarking in reforms in this complex, delicate and important area. In sum, the eventual *benefit* of comprehensive reform is a civil service with the size, skill-mix, motivation, professional ethos and accountability needed to provide quality public services, reduce transactions costs for the private sector, implement economic policy and execute budgets and investment projects. The *costs* of civil service reform are the substantial required resources and policy attention; often, but not invariably, a short-term political loss; and loss of credibility and sustainability of reform, if this delicate and long-gestation task is approached on a quick-fix basis. (For unrepresentative regimes, the real cost is loss of political control.) Clearly, the potential development impact of genuine reform of the civil service is massive. However, civil service reform is only worth doing if it is done well: in the absence of genuine ownership by government, realistic support by external actors and willingness to stay the course by both sides, it is far better not to take on a major involvement. Nonetheless, even then, several meaningful preparatory and consensus-building activities can be usefully undertaken. And, at a minimum, governments and development institutions need to keep 'watching briefs' on civil service issues and stay abreast of the facts—recalling that the slide of many of today's "failed states" began, in part, with the degradation of their civil service.

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